

2007-2081Z



**PEPSICO**

**2007 ANNUAL REPORT**



**PERFORMANCE**  
WITH ***PURPOSE***

**THE JOURNEY CONTINUES...**

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You'll see it's been a good year commercially. I believe that is in part because we have moved our *purpose* agenda forward.

In a networked global marketplace, companies must embrace the reality of rapid change and interconnectedness — and corporate strategy must holistically consider the complex factors shaping the landscape. That was why, last year, we said we would commit ourselves to deliver performance — but it would be performance with *purpose*.

You see, our performance and our purpose are not two separate things. They are not even two sides of the same coin. They are merging. For example, portfolio transformation — offering consumers healthier choices — is equally about human sustainability and top-line growth.

With great pride, I turn now to PepsiCo's 2007 achievements in each of the three elements that together form our purpose agenda: human, environment and talent sustainability.

*"Nothing would be more tiresome than eating and drinking if God had not made them a pleasure as well as a necessity." — Voltaire*

The goal of **human sustainability** is to nourish consumers with a range of products, from treats to healthy eats. We are proud to give consumers choices across the spectrum. Our products deliver joy as well as nutrition — and always, great taste. In 2007 we made great progress toward human sustainability:

- Reformulating some of our existing products to improve their nutritional profile.
- Launching new products that reflect consumer demand for healthier, nutritious snacks and beverages.
- Partnering with governments, health officials and non-governmental organizations to help address obesity concerns.
- Continuing to grow our portfolio of Smart Spot\* eligible products.
- Providing consumers with many great new treat choices and innovations.

You will find many examples of these efforts in the pages that follow.

## Select Portfolio Transformation Milestones

- 1964: Pepsi-Cola introduces Diet Pepsi.
- 1980: Frito-Lay begins "Light" line of low-fat snacks.
- 1989: Frito-Lay launches "1/3 Less Oil" line of snacks.
- 1991: Frito-Lay launches SunChips, its first multigrain snack.
- 1992: Pepsi-Cola launches Lipton Iced Teas in the United States.
- 1995: Baked Lay's arrives as a major low-fat snack.
- 1998: PepsiCo acquires Tropicana.
- 2001: PepsiCo merges with Quaker Oats, including Gatorade.
- 2002: Frito-Lay announces removal of trans fats from Doritos, Tostitos and Cheetos snacks.
- 2004: PepsiCo introduces Smart Spot\* symbol.
- 2006: Walkers introduces Baked Walkers Crisps with 70% less fat.
- 2007: Frito-Lay completes the conversion to sunflower oil across all potato chip brands in the United States, eliminating over 50% of the saturated fat in those brands.

\*See page 21.



## Our brands once again demonstrated competitive strength.

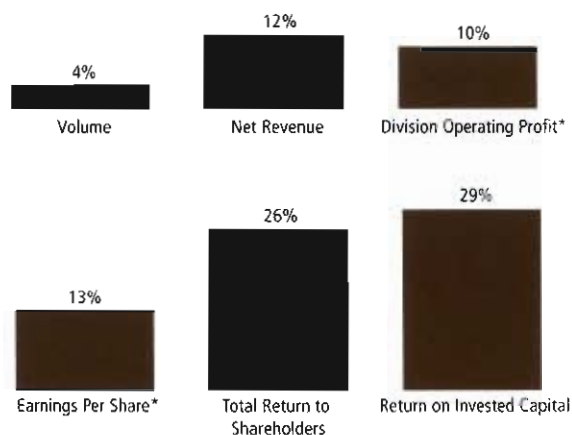
On the ground, in cities and towns around the world, good brand strategies were implemented with operational excellence. I'd like to share a few notable examples of the big marketplace wins we enjoyed in 2007:

- Our carbonated soft drink and savory snack brands gained market share in the United States and in many of our top international markets.
- In the United Kingdom, Baked Walkers crisps was named "New Product of the Year" by *Marketing Week* magazine.
- SunChips snacks delivered double-digit growth in the United States as a result of great, innovative marketing and in-store execution.
- 7UP H2Oh! was our fastest-growing brand in value and volume share in Brazil in its launch year.
- Pepsi Max came of age as a global brand, with outstanding performance in the United States as Diet Pepsi Max, after successes in Northern Europe and Australia and 2007 launches across Asia.
- PepsiCo beverage brands crossed the \$1 billion mark in Russia retail sales.
- We posted double-digit volume growth in China beverages and high-single-digit beverage volume growth in India.

And we did all of this while battling increased commodity inflation and more macroeconomic volatility than in previous years.

In the next few pages you'll learn a lot more about the performance of our individual businesses from the leaders of PepsiCo Americas Foods, PepsiCo Americas Beverages and PepsiCo International.

## 2007 Scorecard



\*See page 86.

## Earnings Per Share\*



\*See page 86.

## Management Operating Cash Flow\*\*

\$ in Millions



\*\*See page 55





# Delivering Performance with Purpose in 2007

Dear Shareholders:

We have titled this year's annual report "Performance with Purpose: The Journey Continues." That's because in 2007 PepsiCo made great progress toward the long-term corporate objectives we set for ourselves last year: To achieve business and financial success while leaving a positive imprint on society.

**Once more, our extraordinary associates around the world delivered terrific performance, and I am delighted to share with you the following 2007 financial results:**

- Net revenue grew 12%, roughly three times the rate of global GDP growth.
- Division operating profit grew 10%.\*
- Earnings per share grew 13%.\*
- Total return to shareholders was 26%.
- Return on invested capital was 29%.
- Cash flow from operations was \$6.9 billion.

In 2007 PepsiCo took important steps to support future growth.

What makes me particularly proud is that our 2007 performance was strong — not just measured by these short-term metrics — but also with the long-term equally in mind:

- We increased capital expenditures in plant and equipment worldwide to enable growth of core brands and expand into new platforms such as baked and crisp-bread snacks and non-carbonated beverages.
- We added several tuck-in acquisitions in key markets and segments, and we further expanded our successful coffee and tea joint ventures.
- We created the Chief Scientific Officer position to ensure our technical capabilities keep pace with increasingly sophisticated consumer demand; and we funded incremental investment to explore breakthrough R&D opportunities.
- We maintained focus on building next-generation IT capabilities with Project One Up, to support our long-term growth prospects worldwide.

\*See page 86.



Indra Nooyi  
Chairman and Chief Executive Officer



## Financial Highlights

PepsiCo, Inc. and Subsidiaries

(\$ in millions except per share amounts; all per share amounts assume dilution)

	2007	2006	Chg <sup>(a)</sup>
<b>Summary of Operations</b>			
Total net revenue	\$39,474	\$35,137	12%
Division operating profit <sup>(b)</sup>	\$8,025	\$7,307	10%
Total operating profit <sup>(c)</sup>	\$7,272	\$6,569	11%
Net income <sup>(d)</sup>	\$5,599	\$5,065	11%
Earnings per share <sup>(d)</sup>	\$3.38	\$3.00	13%

### Other Data

Management operating cash flow <sup>(e)</sup>	\$4,551	\$4,065	12%
Net cash provided by operating activities	\$6,934	\$6,084	14%
Capital spending	\$2,430	\$2,068	17%
Common share repurchases	\$4,300	\$3,000	43%
Dividends paid	\$2,204	\$1,854	19%
Long-term debt	\$4,203	\$2,550	65%

(a) Percentage changes are based on unrounded amounts.

(b) Excludes corporate unallocated expenses and restructuring and impairment charges.

See page 86 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

(c) Excludes restructuring and impairment charges.

See page 86 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

(d) Excludes restructuring and impairment charges and certain tax items.

See page 86 for a reconciliation to the most directly comparable financial measure in accordance with GAAP.

(e) Includes the impact of net capital spending. Also, see "Our Liquidity and Capital Resources" in Management's Discussion and Analysis.

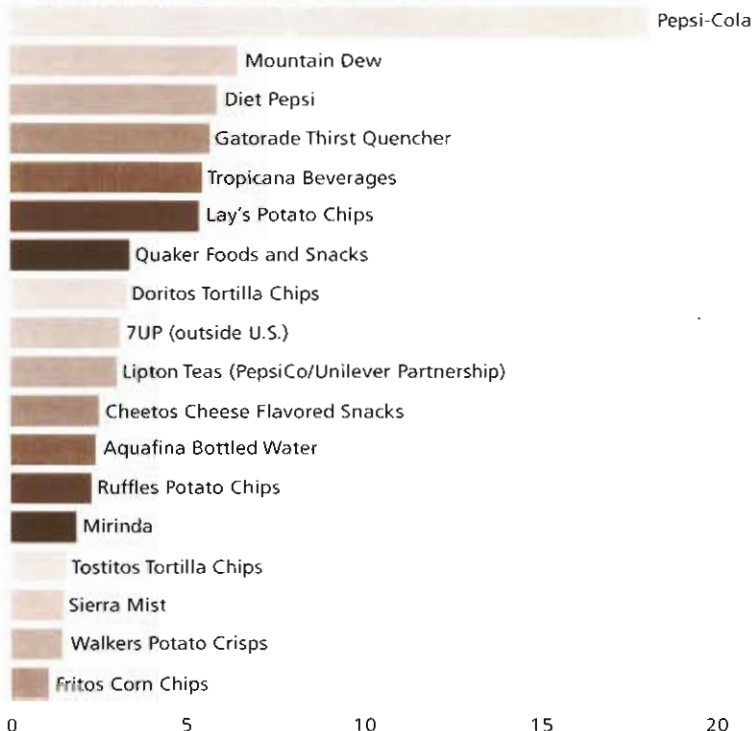
## PepsiCo Estimated Worldwide Retail Sales: \$98 Billion\*

\*Includes estimated retail sales of all PepsiCo products, including those sold by our partners and franchised bottlers.

## Largest PepsiCo Brands



Estimated Worldwide Retail Sales \$ in Billions



PepsiCo has 18 mega-brands that generate \$1 billion or more each in annual retail sales.



THE JOURNEY CONTINUES...





700 Anderson Hill Road  
Purchase, New York 10577-1444

March 24, 2008

Dear Fellow PepsiCo Shareholder:

You are invited to attend our Annual Meeting of Shareholders on Wednesday, May 7, 2008 at 9:00 a.m. local time at the headquarters of Frito-Lay, Inc., 7701 Legacy Drive, Plano, Texas.

At the meeting, we will ask you to elect the Board of Directors, to ratify the appointment of the independent registered public accountants and to consider five shareholder proposals. We will also review the progress of the Company during the past year and answer your questions. The attached Proxy Statement describes the business we will conduct and provides information about the Company that you should consider when you vote your shares.

Cordially,

Indra K. Nooyi







## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

PepsiCo will hold its Annual Meeting of Shareholders at the headquarters of Frito-Lay, Inc., 7701 Legacy Drive, Plano, Texas, on Wednesday, **May 7, 2008** at **9:00 a.m.** local time, to:

- Elect the Board of Directors.
- Ratify the appointment of the independent registered public accountants.
- Act upon 5 shareholder proposals described in the attached Proxy Statement.
- Transact any other business that may properly come before the Meeting.

Holders of record of the Company's Common and Convertible Preferred Stock as of the close of business on March 7, 2008 (the "Record Date") will be entitled to vote at the Meeting.

Please refer to the General Information page in this Proxy Statement for additional information about the Annual Meeting and voting.

March 24, 2008

Larry D. Thompson  
Secretary

### **Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on May 7, 2008**

The proxy statement and annual report to shareholders and the means to vote by Internet are available at [www.pepsico.com/proxy08](http://www.pepsico.com/proxy08).





## GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

### Who can attend the Annual Meeting?

Only shareholders of record as of the close of business on March 7, 2008, their authorized representatives and guests will be able to attend the Annual Meeting. Admission will be by ticket only, and those attending the Annual Meeting must bring photo identification. Frito-Lay headquarters is accessible to disabled persons. Upon request, we will provide wireless headsets for hearing amplification.

### How do I receive an admission ticket?

If you are a registered shareholder (your shares are held in your name) and plan to attend the Annual Meeting, you can obtain an admission ticket by checking the appropriate box on your proxy card or by contacting PepsiCo's Manager of Shareholder Relations at (914) 253-3055. An admission ticket will then be sent to you.

If you are a beneficial owner (your shares are held in the name of a bank, broker or other holder of record) and plan to attend the Annual Meeting, you can obtain an admission ticket in advance by writing to Investor Relations, PepsiCo, Inc., 700 Anderson Hill Road, Purchase, NY 10577 or by contacting PepsiCo's Manager of Shareholder Relations at (914) 253-3055. Please be sure to include proof of ownership, such as a bank or brokerage account statement. Shareholders who do not obtain tickets in advance may obtain them upon verification of their ownership at the registration desk on the day of the Annual Meeting.

### How do I vote at the Annual Meeting?

If you wish to vote at the Annual Meeting, written ballots will be available from the ushers at the meeting. If your shares are held in the name of a bank, broker or other holder of record and you decide to attend and vote at the Annual Meeting, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the meeting. However, if you vote by proxy and also attend the meeting, there is no need to vote again at the Annual Meeting unless you wish to change your vote.

### How do I vote if I cannot attend the Annual Meeting?

All shareholders who are entitled to vote on the matters that come before the Annual Meeting have the opportunity to do so whether or not they attend the meeting in person. Voting via the Internet or by calling the toll-free number listed on the proxy card will save the Company expense. Instructions for using these convenient services appear on the proxy card. You can also vote your shares by marking your votes on the proxy card, signing and dating it and mailing it promptly using the envelope provided. Proxy votes are tabulated by an independent agent and reported at the Annual Meeting.

- **Registered Shareholders** – If you are a registered shareholder holding shares directly in the Company under your own name and are unable to attend the Annual Meeting, you can vote your shares by proxy in one of the following manners:

**Via Internet** at <http://www.eproxy.com/pep> and following the instructions

**By Telephone** at 1-866-580-9477 in the United States, Canada or Puerto Rico on a touch-tone phone and following the recorded instructions

**By Mail** by signing and returning the proxy card

- **Beneficial Owners** – If you are a beneficial owner holding shares through a bank, broker or other holder of record and are unable to attend the Annual Meeting, please refer to the information provided by that entity for instructions on how to vote your shares.

### **Can I revoke my proxy?**

You may revoke your proxy by casting a ballot at the Annual Meeting. Any proxy not revoked will be voted as specified on your proxy card. If you return your proxy and no vote is specified (and you do not vote against a nominee or indicate that you abstain), your proxy will be voted in accordance with the Board of Directors' recommendations.

### **Can employees who participate in PepsiCo's 401(k) plan vote?**

Employees who participate in PepsiCo's 401(k) plan (a portion of which constitutes an Employee Stock Ownership Plan) can vote the shares held in the 401(k) plan as of the close of business on March 7, 2008. To do so, the employee participant must sign and return the proxy card received or vote via internet or telephone, as instructed in the proxy materials received in connection with the shares in the 401(k) plan. If cards representing shares held in the 401(k) plan are not returned, the 401(k) trustees will not vote those shares for which signed cards are not returned, unless required by law.

### **What constitutes a quorum at the Annual Meeting?**

Under North Carolina law and the Company's By-laws, the presence in person or by proxy of the holders of record of a majority of the votes entitled to be cast at a meeting constitutes a quorum. Votes "for" and "against," "abstentions" and "broker non-votes" will all be counted as present to determine whether a quorum has been established. Once a share of the Company's Common Stock or Convertible Preferred Stock is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting.

### **How are votes counted?**

**Election of Directors.** Under North Carolina law and the Company's By-laws, assuming the existence of a quorum at the meeting, the nominees for director who receive a plurality of all of the votes entitled to be cast shall be elected to the Board of Directors. Abstentions and shares that are voted "against" a director nominee will not be counted toward such nominee's election. The Company has also implemented a director resignation policy under its Corporate Governance Guidelines. Under this policy, if a director nominee in an uncontested election receives a greater number of votes "against" his or her election than votes "for" his or her election, the director nominee is required to offer his or her irrevocable resignation to the Board following certification of the shareholder vote. Abstentions have no effect under this policy. The Nominating and Corporate Governance Committee will consider the resignation offer and make a recommendation to the Board. Within 90 days following certification of the shareholder vote, the independent members of the Board will make a final determination as to whether to accept the director's resignation. A director who tenders his or her resignation under this provision shall not be present during the deliberations or voting by the Committee or the Board regarding whether to accept the resignation offer.

**Ratification of Independent Registered Public Accountants.** Under North Carolina law and the Company's By-laws, ratification of the appointment of the independent registered public accountants will be approved if a majority of all the votes entitled to be cast are in favor of ratification.

**Shareholder Proposals.** Under North Carolina law and the Company's By-laws, the affirmative vote of a majority of the votes entitled to be cast is required for adoption of each shareholder proposal resolution.

**Note on Abstentions.** If you abstain from voting on a particular matter, your vote will be counted as present for determining whether a quorum exists but will not be treated as cast either for or against that matter.

**Note on "Broker Non-Votes."** Under New York Stock Exchange rules, a broker may cast a vote on behalf of a beneficial owner on routine matters, such as Election of Directors and Ratification of the Independent Registered Public Accountant, when the broker does not receive specific voting instructions from the beneficial owners. On non-routine matters, such as Shareholder Proposals,

a broker may not cast a vote, absent specific voting instructions from the beneficial owners. If you are a beneficial owner holding shares through a bank, broker or other holder of record and you do not vote on certain matters, your broker may cast a vote on your behalf for Proxy Items Nos. 1 and 2 but not Proxy Items Nos. 3, 4, 5, 6 and 7.

### **Are my votes confidential?**

PepsiCo's policy is that proxies identifying individual shareholders are private except as necessary to determine compliance with law or assert or defend legal claims. Proxies may also not be kept confidential in a contested proxy solicitation or in the event that a shareholder makes a written comment on a proxy card or an attachment to it. PepsiCo retains an independent organization to tabulate shareholder votes and certify voting results. The tabulating agent maintains the confidentiality of the proxies throughout the process.

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### **PepsiCo, Inc.**

700 Anderson Hill Road  
Purchase, New York 10577-1444  
[www.pepsico.com](http://www.pepsico.com)

March 24, 2008

### **PROXY STATEMENT**

The Board of Directors of PepsiCo, Inc. ("PepsiCo" or the "Company") is soliciting proxies to be voted at the Annual Meeting of Shareholders to be held on Wednesday, May 7, 2008, and at any adjournment of the Meeting. We are sending this Proxy Statement in connection with the proxy solicitation.

PepsiCo's authorized stock includes both Common Stock and Convertible Preferred Stock. As of March 7, 2008, the record date, there were 1,595,180,344 shares of PepsiCo Common Stock outstanding and entitled to one vote each at the Annual Meeting and 284,853 shares of PepsiCo Convertible Preferred Stock outstanding and entitled to 1,413,583 votes at the Annual Meeting, which number is equal to the number of shares of Common Stock into which such shares of Convertible Preferred Stock could be converted on the record date, rounded to the nearest share. Holders of the Common Stock and the Convertible Preferred Stock vote together on all matters as a single class. The outstanding shares of Common Stock were registered in the names of 184,415 shareholders and the outstanding shares of Convertible Preferred Stock were registered in the names of 2,279 shareholders. As far as we know, no person owns beneficially more than 5% of the outstanding Common or Convertible Preferred Stock.

PepsiCo is making its first mailing of this Proxy Statement on or about March 24, 2008.

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## **ELECTION OF DIRECTORS (PROXY ITEM NO. 1)**

The Board of Directors (the "Board") proposes the following twelve nominees for election as directors at the Annual Meeting. The directors will hold office from election until the next Annual Meeting of Shareholders, or until their successors are elected and qualified. If any of these nominees for director becomes unavailable, the persons named in the proxy intend to vote for any alternate designated by the current Board of Directors. If all of the twelve director nominees are elected, the Board of Directors will have two vacancies, which may be filled by the Board. Proxies cannot be voted for a greater number of persons than the nominees named.



**IAN M. COOK**, 55, was named Chief Executive Officer and was elected to the board of directors of Colgate-Palmolive Company in 2007. Mr. Cook joined Colgate in the United Kingdom in 1976 and progressed through a series of senior management roles around the world. In 2002, he became Executive Vice President, North America and Europe. In 2004, he became Chief Operating Officer, with responsibility for operations in North America, Europe, Central Europe, Asia and Africa. In 2005, he was named President and Chief Operating Officer, responsible for all Colgate operations worldwide. Mr. Cook joined PepsiCo's Board in 2008.



**DINA DUBLON**, 54, is the former Executive Vice President and Chief Financial Officer, JP Morgan Chase & Co., serving in that capacity from December 1998 until her retirement in September 2004. Ms. Dublon is a director of Microsoft Corp. and Accenture. She is also a director of the Global Fund for Women and the Women's Commission for Refugee Women & Children. She is a trustee of Carnegie Mellon University. Ms. Dublon was elected to PepsiCo's Board in 2005.



**VICTOR J. DZAU, MD**, 62, is Chancellor for Health Affairs at Duke University and President and CEO of the Duke University Health System since July 2004. Prior to that, he served as Hersey Professor of Medicine at Harvard Medical School and Chairman of the Department of Medicine at Brigham and Women's Hospital in Boston Massachusetts from 1996 to 2004. He is a member of the Institute of Medicine of the National Academy of Sciences and the European Academy of Science and Arts. He was the previous Chairman of the National Institutes of Health (NIH) Cardiovascular Disease Advisory Committee, and he served on the Advisory Committee to the Director of NIH. Dr. Dzau has been named 2004 Distinguished Scientist of the American Heart Association and was the recipient of the 2004 Max Delbruck Medal, Berlin, Germany and the 2005 Ellis Island Medal of Honor. Dr. Dzau is also a director of Genzyme Corporation, Alnylam Pharmaceuticals, Inc. and Medtronic, Inc. Dr. Dzau was elected to PepsiCo's Board in 2005.



**RAY L. HUNT**, 64, is Chairman and Chief Executive Officer of Hunt Oil Company, Chief Executive Officer and President, Hunt Consolidated, Inc. Mr. Hunt began his association with Hunt Oil Company in 1958 and has held his current position since 1976. He is also a director of Electronic Data Systems Corporation, King Ranch, Inc. and Verde Group, LLC. Mr. Hunt was elected to PepsiCo's Board in 1996.



**ALBERTO IBARGÜEN**, 64, has been President and Chief Executive Officer of the John S. and James L. Knight Foundation since 2005. Mr. Ibargüen previously served as Chairman of Miami Herald Publishing Co., a Knight Ridder subsidiary, and as publisher of *The Miami Herald* and of *El Nuevo Herald*. He is a member of the board of The Council on Foreign Relations, a member of the Trustees' Council of the National Gallery of Art, a member of the Advisory Council of the Public Company Accounting Oversight Board and the Chairman of the Board of The Newseum in Washington, D.C. Mr. Ibargüen is also a director of AMR Corporation and American Airlines, Inc. Mr. Ibargüen was elected to PepsiCo's Board in 2005.

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**ARTHUR C. MARTINEZ**, 68, is the former Chairman of the Board, President and Chief Executive Officer of Sears, Roebuck and Co. Mr. Martinez was Chairman and Chief Executive Officer of the former Sears Merchandise Group from 1992 to 1995 and served as Chairman of the Board, President and Chief Executive Officer of Sears, Roebuck and Co. from 1995 until 2000. He served as Vice Chairman and a director of Saks Fifth Avenue from 1990 to 1992. He is also a director of Liz Claiborne, Inc., International Flavors & Fragrances Inc. and IAC/Interactive Corp. Mr. Martinez is Chairman of the Supervisory Board of ABN AMRO Holding, N.V. Mr. Martinez was elected to PepsiCo's Board in 1999.

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**INDRA K. NOOYI**, 52, has served as PepsiCo's Chairman of the Board since May 2007 and Chief Executive Officer since October 2006. She was elected to PepsiCo's Board in 2001. From May 2001 until October 2006, she served as PepsiCo's President and Chief Financial Officer. She served as Senior Vice President and Chief Financial Officer from February 2000 to May 2001; Senior Vice President, Corporate Strategy and Development from 1996 until February 2000 and Senior Vice President, Strategic Planning from 1994 until 1996. Prior to joining PepsiCo, Ms. Nooyi spent four years as Senior Vice President of Strategy, Planning and Strategic Marketing for Asea Brown Boveri, Inc. She was also Vice President and Director of Corporate Strategy and Planning at Motorola, Inc.

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**SHARON PERCY ROCKEFELLER**, 63, is President and Chief Executive Officer of WETA public stations in Washington, D.C., a position she has held since 1989, and was a member of the Board of Directors of WETA from 1985 to 1989. She was a member of the Board of Directors of the Corporation for Public Broadcasting until 1992 and is currently a director of Public Broadcasting Service (PBS), Washington, D.C. Ms. Rockefeller currently serves as trustee on the following non-profit boards: National Gallery of Art, The Museum of Modern Art, Johns Hopkins Medicine, Colonial Williamsburg Foundation and Rockefeller Philanthropy Advisors. Ms. Rockefeller was elected to PepsiCo's Board in 1986.



**JAMES J. SCHIRO**, 62, became Chief Executive Officer of Zurich Financial Services in May 2002, after serving as Chief Operating Officer – Group Finance since March 2002. He joined Price Waterhouse in 1967, where he held various management positions. In 1994 he was elected Chairman and senior partner of Price Waterhouse, and in 1998 became Chief Executive Officer of PricewaterhouseCoopers, after the merger of Price Waterhouse and Coopers & Lybrand. Mr. Schiro is also a director of Royal Philips Electronics. Mr. Schiro was elected to PepsiCo's Board in 2003.

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**LLOYD G. TROTTER**, 61, is a partner at GenNx360 Capital Partners, a position he has held since February 2008. He served as Vice Chairman, General Electric, and as President and Chief Executive Officer of GE Industrial, from 2006 through February 2008. Between 1989 and 2006, he held various positions at GE, including Executive Vice President, Operations, from 2005 to 2006, President and Chief Executive Officer of GE Consumer and Industrial Systems from 1998 to 2005 and President and Chief Executive Officer, Electrical Distribution and Control from 1992 to 1998. Mr. Trotter is a former director of Genpact Limited. Mr. Trotter is also a director of Textron, Inc. Mr. Trotter joined PepsiCo's Board in 2008.

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**DANIEL VASELLA**, 54, became Chairman of the Board and Chief Executive Officer of Novartis AG in 1999, after serving as President since 1996. From 1992 to 1996, Dr. Vasella held the positions of Chief Executive Officer, Chief Operating Officer, Senior Vice President and Head of Worldwide Development and Head of Corporate Marketing at Sandoz Pharma Ltd. He also served at Sandoz Pharmaceuticals Corporation from 1988 to 1992. Mr. Vasella was elected to PepsiCo's Board in 2002.

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**MICHAEL D. WHITE**, 56, was elected to PepsiCo's Board and named Vice Chairman of PepsiCo in March 2006. He continues to serve as Chief Executive Officer of PepsiCo International, a position he has held since February 2003. From 2000 to 2003, he served as President and Chief Executive Officer of Frito-Lay's Europe/Africa/Middle East division. From 1998 to 2000, Mr. White was Senior Vice President and Chief Financial Officer of PepsiCo. Mr. White has also served as Executive Vice President and Chief Financial Officer of PepsiCo Foods International and Chief Financial Officer of Frito-Lay North America. He joined Frito-Lay in 1990 as Vice President of Planning. Mr. White is also a director of Whirlpool Corporation.

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## **OWNERSHIP OF PEPSICO COMMON STOCK BY DIRECTORS AND EXECUTIVE OFFICERS**

The following table shows, as of March 7, 2008, the shares of PepsiCo Common Stock beneficially owned by each director (including each nominee), by each of the executive officers identified in the Summary Compensation Table on page 27 of this Proxy Statement ("Named Executive Officers") and by all directors and all executive officers as a group:

<u>Name of Individual or Group</u>	<u>Number of Shares of PepsiCo Common Stock Beneficially Owned(1)</u>
Albert P. Carey .....	749,112
John C. Compton .....	839,402
Ian M. Cook (2) .....	1,000
Dina Dublon .....	1,574
Victor J. Dzau .....	1,574
Richard Goodman .....	273,236
Dawn E. Hudson (3) .....	196,916
Ray L. Hunt (4) .....	544,953
Alberto Ibargüen .....	2,574
Arthur C. Martinez .....	34,179
Indra K. Nooyi .....	1,193,556
Sharon Percy Rockefeller .....	72,951
James J. Schiro .....	25,518
Lloyd G. Trotter (2) .....	1,000
Daniel Vasella .....	23,627
Michael D. White .....	1,216,868
All directors and executive officers as a group (23 persons) .....	6,510,676

- (1) The shares shown include the following shares that directors and executive officers have the right to acquire within 60 days after March 7, 2008 through the exercise of vested stock options: Albert P. Carey, 716,569 shares; John C. Compton, 804,640 shares; Richard Goodman, 257,914 shares; Dawn E. Hudson, 165,827 shares; Ray L. Hunt, 60,403 shares; Arthur C. Martinez, 30,097 shares; Indra K. Nooyi, 1,149,825 shares; Sharon Percy Rockefeller, 37,502 shares; James J. Schiro, 22,859 shares; Daniel Vasella, 16,869 shares; Michael D. White, 1,137,247 shares; and all directors and executive officers as a group, 5,601,463 shares. Except as otherwise noted, the directors and executive officers exercise sole voting and investment power over their shares shown in the table.
- (2) Reflects shares granted to Mr. Cook and Mr. Trotter upon joining the Board on March 14, 2008.
- (3) Ms. Hudson resigned as Chief Executive Officer of Pepsi-Cola North America and PepsiCo Foodservice on November 5, 2007 and separated from the Company on February 15, 2008.
- (4) The shares shown for Mr. Hunt include (i) 26,700 shares held in a corporation over which Mr. Hunt has sole voting and investment power, (ii) 262,286 shares held in trusts over which Mr. Hunt has shared voting power and sole investment power, and (iii) 152,500 shares held in a trust over which Mr. Hunt has sole voting power and no investment power.

The following table shows, as of March 7, 2008, the number of phantom units of PepsiCo Common Stock held in the PepsiCo deferred income program by each director (including each nominee), by each Named Executive Officer and by all directors and all executive officers as a group. Each phantom unit is intended to be the economic equivalent of one share of PepsiCo Common Stock:

<u>Name of Individual or Group</u>	<u>Number of Phantom Units of PepsiCo Common Stock Held in PepsiCo's Deferred Income Program</u>
Albert P. Carey .....	0
John C. Compton .....	33,872
Ian M. Cook (1) .....	2,739
Dina Dublon .....	2,515
Victor J. Dzau .....	7,316
Richard Goodman .....	0
Dawn E. Hudson .....	0
Ray L. Hunt .....	17,226
Alberto Ibarguen .....	6,838
Arthur C. Martinez .....	21,989
Indra K. Nooyi .....	52,513
Sharon Percy Rockefeller .....	2,037
James J. Schiro .....	9,615
Lloyd G. Trotter (1) .....	2,739
Daniel Vasella .....	4,989
Michael D. White .....	0
All directors and executive officers as a group (23 persons) .....	176,044

As of March 7, 2008, the Directors and executive officers as a group own less than 1% of outstanding PepsiCo Common Stock and less than 1% of outstanding PepsiCo Convertible Preferred Stock.

- (1) Reflects pro-rated annual equity grant and amounts deferred by Mr. Cook and Mr. Trotter upon joining the Board on March 14, 2008.

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## CORPORATE GOVERNANCE AT PEPSICO

### ***Board of Directors***

Our business and affairs are overseen by our Board of Directors pursuant to the North Carolina Business Corporation Act and our By-laws. Members of the Board of Directors are kept informed of the Company's business through discussions with the Chairman and Chief Executive Officer and with key members of management, by reviewing materials provided to them and by participating in Board and Committee meetings. Members of the Board of Directors are elected annually.

Regular attendance at Board meetings and the Annual Meeting is required of each director. PepsiCo's Board held eight meetings during 2007. Average attendance by incumbent directors at Board and standing Committee meetings was 96%. No incumbent director attended fewer than 75% of the total number of Board and standing Committee meetings. The non-management directors met in executive session at six Board meetings in 2007. All directors attended the 2007 Annual Meeting.

In 2002, the Board of Directors adopted the Corporate Governance Guidelines. The Guidelines are periodically amended and were most recently amended in November 2007. The revised Guidelines are attached to this Proxy Statement as Exhibit A and are also available on the Company's website at [www.pepsico.com](http://www.pepsico.com) under Corporate Governance in the "Investors" section and are available in print to any shareholder who requests a copy. The Company's Worldwide Code of Conduct is also available on the Company's website at [www.pepsico.com](http://www.pepsico.com) under Corporate Governance in the "Investors" section and is available in print to any shareholder who requests a copy. Annually, all of PepsiCo's executive officers, other senior employees and directors sign certifications with respect to their compliance with the Company's Worldwide Code of Conduct.

### ***Director Independence***

The Board of Directors has determined that to be considered independent, a director may not have any direct or indirect material relationships with the Company. In making a determination of whether a material relationship exists, the Board considers all relevant facts and circumstances, including but not limited to the director's commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships. In addition to the independence requirements set forth in the Corporate Governance Listing Standards of the New York Stock Exchange, the Board has determined that a director will not be independent if he serves as an executive officer, director or trustee of a tax exempt organization that has received contributions from the Company or any of its consolidated subsidiaries in any of the last three fiscal years that exceeds the greater of \$1 million or 2% of the consolidated gross revenues of such tax exempt organization for its last completed fiscal year. These independence standards were recommended by the Nominating and Corporate Governance Committee and adopted by the Board of Directors, and are detailed in full in the Corporate Governance Guidelines attached as Exhibit A to this Proxy Statement.

Consistent with these considerations, the Board has reviewed all relationships between the Company and the members of the Board and has affirmatively determined that the non-management directors standing for election listed below are independent within the meaning of the rules of the New York Stock Exchange, based on the application of the Company's independence standards.

Ian M. Cook  
Dina Dublon  
Victor J. Dzau

Ray L. Hunt  
Alberto Ibarguen  
Arthur C. Martinez

Sharon Percy Rockefeller  
James J. Schiro  
Lloyd G. Trotter  
Daniel Vasella

In addition, the Board determined that John Akers, Robert Allen, Franklin Thomas and Cynthia Trudell each were independent prior to their retirement from the Board in 2007. None of the non-management directors receives any fees from the Company other than those received in his or her capacity as a director.



### ***Presiding Director***

In May 2007, the Board of Directors appointed Sharon Percy Rockefeller as the Presiding Director of the Board. Robert E. Allen served as the previous Presiding Director until his retirement from the PepsiCo Board in May 2007. In her capacity as the Presiding Director, Ms. Rockefeller presides at the regularly-scheduled executive sessions of the Board, at which only non-management directors are present. She also advises the Chairman of the Board and, as appropriate, Committee chairs with respect to agendas and information needs relating to the Board and Committee meetings, and performs other duties that the Board may from time to time delegate to assist the Board in the fulfillment of its responsibilities. Shareholders and other interested parties may communicate with Ms. Rockefeller, or with any non-management directors, by any of the following means:

- by phone at 1-866-626-0633
- by sending a letter to PepsiCo, Inc., 700 Anderson Hill Road, Purchase, New York, 10577  
Attention: Presiding Director
- by submitting a communication on-line at our website [www.pepsico.com](http://www.pepsico.com) under "Investors" – "Corporate Governance" – "Contact the Board of Directors/Audit Committee"

### ***Communications to the Board of Directors***

The PepsiCo Corporate Law Department reviews all communications sent to the Board of Directors relating to the duties and responsibilities of the Board and its Committees. The Corporate Law Department maintains a log of all such communications and regularly provides a summary of communications to the Board that relate to the functions of the Board or a Board Committee or that otherwise require Board attention. Directors may at any time review the log of Board communications received by the Company and request copies or summaries of such communications. In addition, the Corporate Law Department may forward certain communications only to the Presiding Director, the Chair of the relevant Committee or the individual Board member to whom a communication is directed. Concerns relating to PepsiCo's accounting, internal accounting controls or auditing matters will be referred directly to members of the Audit Committee.

Shareholders and other interested parties may contact the Board, a Committee of the Board or an individual member of the Board by any of the following means:

- by phone at 1-866-626-0633
- by sending a letter to PepsiCo, Inc., 700 Anderson Hill Road, Purchase, New York, 10577
- by submitting a communication on-line at our website [www.pepsico.com](http://www.pepsico.com) under "Investors" – "Corporate Governance" – "Contact the Board of Directors"

### ***Political Contributions Policy***

In 2005, the Board of Directors adopted a Political Contributions Policy for the Company. The Political Contributions Policy, together with other policies and procedures, including the Company's Worldwide Code of Conduct, guides the Company's approach to political contributions. In connection with the development of this policy and in keeping with the Company's goals of transparency, the policy and the Company's annual political contributions are posted on our website at [www.pepsico.com](http://www.pepsico.com) "Investors" – "Corporate Governance" – "Policies."

## Committees of the Board of Directors

The Board of Directors has three standing Committees: Nominating and Corporate Governance, Compensation and Audit. The table below indicates the members of each Board committee during 2007 and through March 14, 2008:

Name	Nominating and Corporate Governance	Compensation	Audit
John F. Akers <sup>(1) (2)</sup>	*	*	
Robert E. Allen <sup>(1) (3)</sup>	*	*	
Ian M. Cook <sup>(4)</sup>			X
Dina Dublon			X
Victor J. Dzau	X	X	
Ray L. Hunt	Chair	X	
Alberto Ibarguen			X
Arthur C. Martinez <sup>(5)</sup>	X	Chair	
Indra K. Nooyi			
Steven S. Reinemund <sup>(1)</sup>			
Sharon P. Rockefeller <sup>(6)</sup>	X	X	
James J. Schiro			Chair
Franklin A. Thomas <sup>(1)</sup>			*
Lloyd G. Trotter <sup>(4)</sup>			X
Cynthia M. Trudell <sup>(7)</sup>			*
Daniel Vasella	X	X	
Michael D. White			

- (1) Messrs. Akers, Allen, Reinemund and Thomas retired from the Board of Directors as of May 2, 2007.  
(2) Mr. Akers served as Compensation Committee Chair until his retirement from the Board on May 2, 2007.  
(3) Mr. Allen served as Presiding Director until his retirement from the Board on May 2, 2007.  
(4) Messrs. Cook and Trotter joined the Board and Audit Committee on March 14, 2008.  
(5) Mr. Martinez has served as Compensation Committee Chair since May 2, 2007.  
(6) Ms. Rockefeller became Presiding Director on May 2, 2007.  
(7) Ms. Trudell was a member of the Board and Audit Committee from January 1 through February 2, 2007.  
\* Former Committee Member or Committee Chair

## The Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee, which was established in 1997 and renamed in 2002, held four meetings in 2007. The Nominating and Corporate Governance Committee: (a) identifies and recommends to the Board for election and/or appointment qualified candidates for membership on the Board and the Committees of the Board; (b) develops and recommends to the Board corporate governance principles and the Worldwide Code of Conduct applicable to the Company and monitors compliance with all such principles and policies; (c) develops and recommends to the Board criteria to assess the independence of members of the Board; (d) makes recommendations to the Board concerning the composition, size, structure and activities of the Board and its Committees; (e) assesses and reports to the Board on the performance and effectiveness of the Board and its Committees; and (f) reviews and reports to the Board with respect to director compensation and benefits. The Nominating and Corporate Governance Committee Charter is available on the Company's website at [www.pepsico.com](http://www.pepsico.com) under Corporate Governance in the "Investors" section and is also available in print to any shareholder who requests a copy. The Nominating and Corporate Governance Committee is comprised entirely of directors who meet the independence requirements of the New York Stock Exchange and applicable securities laws.

### ***Director Nomination Process***

The Nominating and Corporate Governance Committee does not solicit director nominations, but will consider recommendations for director nominees made by shareholders, if the individuals recommended meet certain minimum Board membership criteria. The Committee's assessment of Board candidates includes consideration of a candidate's: (i) relevant knowledge and diversity of background and experience in areas including business, finance, accounting, technology, marketing, international business and government; (ii) personal qualities of leadership, character, judgment and whether the candidate possesses a reputation in the community at large of integrity, trust, respect, competence and adherence to the highest ethical standards; (iii) roles and contributions valuable to the business community and (iv) whether the candidate is free of conflicts and has the time required for preparation, participation and attendance at all meetings. Shareholder recommendations should be sent to the Secretary of PepsiCo at 700 Anderson Hill Road, Purchase, New York 10577 and must include detailed background regarding the suggested candidate that demonstrates how the individual meets the minimum Board membership criteria.

Nominations received by the Secretary of the Company from shareholders are reviewed by the Chairman of the Nominating and Corporate Governance Committee to determine whether the candidate possesses the minimum qualifications described above, and if so, whether the candidate's expertise and particular set of skills and background fit the current needs of the Board. This is done to ensure that the Board includes members with diverse backgrounds, skills and experience, including appropriate financial and other expertise relevant to the business of the Company. If the candidate meets the requirements for a current vacancy on the Board, the submission materials are reviewed with the Nominating and Corporate Governance Committee and are responded to by the Chairman of the Committee or his designee. The process for evaluation of candidates submitted by non-shareholders of the Company is handled similarly.

From time to time, the Nominating and Corporate Governance Committee engages consulting firms to perform searches for director candidates who meet the current needs of the Board. If a consulting firm is retained to assist in the search process for a director, a fee is paid to such firm. The Company's non-management directors recommend Mr. Cook and Mr. Trotter as nominees.

### ***The Audit Committee***

The Audit Committee, which was established in 1967, held ten meetings in 2007. The Audit Committee's primary responsibilities are to retain the Company's independent auditor (subject to shareholder ratification) and to assist the Board's oversight of: (a) the quality and integrity of the Company's financial statements and its related internal controls over financial reporting; (b) the Company's compliance with legal and regulatory requirements; (c) the independent auditors' qualifications and independence; and (d) the performance of the Company's internal audit function and the independent auditors. The report of the Audit Committee is set forth on page 13 of this Proxy Statement. The Audit Committee Charter is available on the Company's website at [www.pepsico.com](http://www.pepsico.com) under Corporate Governance in the "Investors" section and is also available in print to any shareholder who requests a copy.

### ***Financial Expertise and Financial Literacy***

The Board of Directors has determined that Dina Dublon and James J. Schiro, members of our Audit Committee, satisfy the criteria adopted by the Securities and Exchange Commission to serve as "audit committee financial experts" and are independent directors, pursuant to the standards set forth in the Company's Corporate Governance Guidelines and the requirements under the Securities Exchange Act of 1934 and the New York Stock Exchange Listing Standards. In addition, the Board of Directors has determined that Ian M. Cook, Dina Dublon, Alberto Ibargüen, James J. Schiro and Lloyd G. Trotter, all members of our Audit Committee, are independent directors and are financially literate within the meaning of the New York Stock Exchange Corporate Governance Listing Standards.



### ***Directors on Multiple Audit Committees***

None of the Company's directors serves on the audit committee of more than three public companies.

### ***The Compensation Committee***

The Compensation Committee, which has been active since 1955, held four meetings during 2007. The Compensation Committee: (a) oversees the policies of the Company relating to compensation of the Company's executives and makes recommendations to the Board regarding the compensation of PepsiCo's executive officers; (b) produces a report on executive compensation for inclusion in the Company's Proxy Statement; and (c) monitors the development and implementation of succession plans for the Chief Executive Officer and other key executives, and makes recommendations to the Board with respect to such plans. Additional information on the roles and responsibilities of the Compensation Committee is provided in the Compensation Discussion and Analysis on page 15 of this Proxy Statement.

The Compensation Committee is composed entirely of independent members of the Board who are "outside directors" for purposes of Section 162(m) of the Internal Revenue Code and "non-employee directors" for purposes of Section 16 of the Securities Exchange Act of 1934. The Compensation Committee Report is set forth on page 26 of this Proxy Statement. The Compensation Committee Charter is available on the Company's website at [www.pepsico.com](http://www.pepsico.com) under Corporate Governance in the "Investors" section and is also available in print to any shareholder who requests a copy.

### ***Review and Approval of Transactions with Related Persons***

On an annual basis, each director and executive officer is required to complete a questionnaire, which requires disclosure of any transactions the director or executive officer, or their immediate family members, may have with the Company in which the director or executive officer, or their immediate family members, has a direct or indirect material interest. The Audit Committee, which is responsible for reviewing and approving any related party transactions, considers the responses in the questionnaires and other information regarding potential relationships between the Company and the directors and executive officers. The Audit Committee has determined that there are no related party transactions to report.

### ***Compensation Committee Interlocks and Insider Participation***

No member of PepsiCo's Compensation Committee is now, or was during 2007 or any time prior thereto, an officer or employee of the Company. No member of the Compensation Committee had any relationship with the Company or any of its subsidiaries during 2007 pursuant to which disclosure would be required under applicable rules of the Securities and Exchange Commission pertaining to the disclosure of transactions with related persons. None of the executive officers of the Company currently serves or has served in the past on the board of directors or compensation committee of another company at any time during which an executive officer of such other company served on the Company's Board of Directors or Compensation Committee.

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## **AUDIT COMMITTEE REPORT**

PepsiCo's Audit Committee reports to and acts on behalf of the Board of Directors by providing oversight of the Company's independent auditors and the Company's financial management and financial reporting procedures. The Audit Committee is comprised entirely of directors who meet the independence, financial experience and other qualification requirements of the New York Stock Exchange and applicable securities laws. The Audit Committee is a separately designated standing audit committee established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934. The names of the Audit Committee members are included at the end of this Audit Committee Report. The Audit Committee operates under a written charter adopted by the Board of Directors, which is reviewed annually and is available on the Company's website at [www.pepsico.com](http://www.pepsico.com) under Corporate Governance in the "Investors" section.

The Company's management has responsibility for preparing the Company's financial statements and the Company's independent auditors (independent registered public accountants), KPMG LLP ("KPMG"), is responsible for auditing those financial statements. In this context, the Audit Committee has met with management and KPMG to review and discuss the Company's audited financial statements. The Audit Committee discussed with Company management and KPMG the critical accounting policies applied by the Company in the preparation of its financial statements. These policies arise in connection with: revenue recognition and related trade spending; brand and goodwill valuations; income tax expense and accruals; and pension and retiree medical plans. The Company's management has represented to the Audit Committee that the financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee discussed with KPMG the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communications with Audit Committees), as amended, and the Sarbanes-Oxley Act of 2002, and had the opportunity to ask KPMG questions relating to such matters. The discussions included the quality, and not just the acceptability, of the accounting principles utilized, the reasonableness of significant accounting judgments, and the clarity of disclosures in the financial statements. The Audit Committee also discussed with Company management the process for certifications by the Company's Chief Executive Officer and Chief Financial Officer, which is required by the Securities and Exchange Commission and the Sarbanes-Oxley Act of 2002 for certain of the Company's filings with the Securities and Exchange Commission.

The Audit Committee reviewed with the Company's internal and independent auditors the overall scope and plans for their respective audits for 2007. The Audit Committee also received regular updates from the Company's General Auditor and Controller on internal control and business risks and the Company's senior officer for compliance and business practices on compliance and ethics issues. The Audit Committee also received an update on the Company Law Department's 2007 compliance with Part 205 of Section 307 of the Sarbanes-Oxley Act of 2002 regarding standards of professional conduct for attorneys. The Audit Committee meets with the internal and independent auditors, with and without management present, to discuss their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting. The Audit Committee also meets with the Company's General Counsel, with and without management present, to discuss the Company's compliance with laws and regulations.

The Audit Committee reviewed and discussed with KPMG, KPMG's independence and, as part of that review, received the written disclosures required by applicable professional and regulatory standards relating to KPMG's independence from the Company. The Audit Committee also reviewed and pre-approved all fees paid to the independent auditors. These fees are described in the next section of this Proxy Statement. The Audit Committee also considered whether KPMG's provision of non-audit services to the Company was compatible with the auditor's independence. The Committee has adopted a formal policy on Audit, Audit-Related and Non-Audit Services, which is published on the Company's website and which is briefly described in the next section of this Proxy Statement. The Audit Committee concluded that the independent auditors are independent from the Company and its management.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 29, 2007, for filing with the Securities and Exchange Commission. The Audit Committee has also retained KPMG as the Company's independent auditors for the fiscal year 2008, and the Audit Committee and the Board have recommended that shareholders ratify the appointment of KPMG as the Company's independent auditors for the fiscal year 2008.

Franklin A. Thomas was a member of the Audit Committee during the fiscal year 2007 from January 1, 2007 through May 2, 2007. Cynthia M. Trudell was a member of the Audit Committee during the fiscal year 2007 from January 1, 2007 through February 2, 2007 and subsequently became the Company's Senior Vice President and Chief Personnel Officer. Ian M. Cook and Lloyd G. Trotter joined the Audit Committee on March 14, 2008.

#### THE AUDIT COMMITTEE

DINA DUBLON  
ALBERTO IBARGÜEN

JAMES J. SCHIRO,  
CHAIRMAN

#### AUDIT AND NON-AUDIT FEES

The following table presents fees for professional audit services rendered by KPMG LLP, the Company's independent auditors, for the audit of the Company's annual financial statements for 2006 and 2007, and fees billed for other services rendered by KPMG LLP.

	2006	2007
Audit fees	\$18,254,000	\$18,793,000
Audit-related fees(1)	\$ 1,631,000	\$ 1,974,000
Tax fees(2)	\$ 875,000	\$ 461,000
All other fees	\$ 0	\$ 0

(1) Audit-related fees for 2006 and 2007 consisted primarily of the audits of certain employee benefit plans, due diligence reviews of certain businesses acquired, and internal control reviews.

(2) Tax fees for 2006 and 2007 consisted primarily of international tax compliance services.

We understand the need for the independent auditors to maintain their objectivity and independence, both in appearance and in fact, in their audit of the Company's financial statements. Accordingly, the Audit Committee has adopted the PepsiCo Policy for Audit, Audit-Related and Non-Audit Services. The Policy provides that the Audit Committee will engage the auditor for the audit of the Company's consolidated financial statements and other audit-related work. The auditor may also be engaged for tax and other non-audit related work if those services: enhance and support the attest function of the audit; are an extension to the audit or audit-related services; or are services with respect to which, under the circumstances, KPMG offers unique qualification and there is clearly no question regarding their independence in providing such service. The policy further provides that on an annual basis the auditor's Global Lead Audit Partner will review with the Audit Committee the services the auditor expects to provide in the coming year and the related fee estimates. In addition, PepsiCo will provide the Audit Committee with a quarterly status report regarding the Committee's pre-approval of audit-related, tax or other non-audit services that the auditor has been pre-approved to perform, has been asked to provide or may be expected to provide during the balance of the year. PepsiCo's Policy for Audit, Audit-Related and Non-Audit Services is available on the Company's website at [www.pepsico.com](http://www.pepsico.com) under Corporate Governance in the "Investors" section.

## **EXECUTIVE COMPENSATION**

### **COMPENSATION DISCUSSION AND ANALYSIS**

This Compensation Discussion and Analysis provides information regarding the compensation paid to our executive officers who are identified as Named Executive Officers in the Summary Compensation Table on page 27 of this Proxy Statement.

#### ***Compensation Philosophy***

It is critical to our long-term success and growth that our businesses are managed by highly capable leaders with the experience, skills and dedication to oversee a growing and changing global organization. To achieve this objective, our compensation programs are designed to help recruit, retain and motivate a large group of talented and diverse domestic and international employees. Our programs are highly incentive-based and competitive in the marketplace, with a significant portion of total compensation determined by Company performance. As a result, when PepsiCo's financial performance is above that of our peer group median, total compensation is delivered above the peer group median. Likewise if PepsiCo's financial performance were to be below the peer group median, total compensation would be delivered below the peer group median.

Our executive compensation philosophy is based on the principle that PepsiCo will achieve its best results when its employees act and are rewarded as business owners. Ownership is not only about owning stock, but it is also about being accountable for business results, in good times and bad. Owners act with the conviction that their business is personal and that they can make a difference. Owners take initiative and responsibility for the assets of the business and its employees. As executives progress to higher levels at PepsiCo, their responsibilities, risks and rewards progress as well.

#### ***How We Determine Compensation***

***Role of the Compensation Committee.*** The Compensation Committee oversees the design and administration of PepsiCo's compensation programs and evaluates these programs against competitive practices, legal and regulatory developments and corporate governance trends. The Compensation Committee approves, and recommends to the Board of Directors, the total compensation for each executive officer. The total compensation is then reviewed and approved by the Board of Directors. The independent members of the Board approve the compensation for the Chairman & CEO. As part of its processes and procedures for determining executive compensation, the Compensation Committee annually:

- reviews and establishes the peer group companies used as a reference to benchmark Company performance and executive officer compensation;
- reviews executive officer compensation to ensure that a significant portion is performance-based to create incentives for above-target performance and consequences for below-target performance;
- approves specific performance targets, which are linked to Company-wide or business unit performance, depending on an executive officer's position and scope of responsibility;
- confirms with the Committee's external consultant that total compensation paid to each executive officer is appropriate based on an analysis that compares the Company's financial performance relative to the performance of its peer group as measured by financial metrics including shareholder returns and operating performance over one-year and three-year time periods; and
- approves base salary adjustments and annual and long-term incentive award payouts each year based on performance achieved in the prior year relative to the pre-established performance targets.



Each year, actual annual incentive awards, long-term incentive awards and pay actions for the executive officers are approved by the Board on the recommendation of the Compensation Committee, based on an analysis of PepsiCo's actual performance relative to financial goals established in advance by the Compensation Committee and relative to an executive officer's individual performance and contributions to PepsiCo's strategic goals.

**Role of Management.** The Compensation Committee and Board of Directors determine the compensation of the Chairman & CEO without management input. The Compensation Committee and the Board solicit input from the Chairman & CEO to obtain her evaluation of performance and her recommendation in determining pay for other executive officers. No executive officer is present when his or her compensation is discussed by the Committee or the Board of Directors.

In addition, the Company's human resources department prepares materials for review by the Compensation Committee and provides data, analysis and recommendations for the Committee's consideration regarding the Company's compensation programs and policies as well as pay levels for non-executive officers. The human resources department also administers PepsiCo's compensation and benefits programs and policies consistent with the direction of the Committee or Board, as appropriate.

**Role of the External Consultant.** The Compensation Committee considers analysis and advice from its external consultant when making compensation decisions for the Chairman & CEO and other executive officers. The external consultant assists in evaluating the Company's compensation objectives, provides market information in order to assist the Committee and the Board in making pay decisions and verifies the alignment between executive officer pay and PepsiCo's financial performance. The external consultant attends Committee meetings, and Committee members have direct access to the consultant without management involvement. While the external consultant works directly for the Compensation Committee, input is sometimes obtained from management to ensure that the consultant's recommendations and advice reinforce PepsiCo's business strategy, principles and values.

During 2007, the Compensation Committee utilized input from Peter Chingos of Mercer Human Resource Consulting to determine the alignment between executive officer pay and PepsiCo's financial performance relative to the Board-approved peer group. From 2002 until December 2007, Peter Chingos served as the Committee's external consultant. During 2007, the Committee decided to engage a new external consultant. After conducting a due diligence process, the Committee selected Frederic Cook from Frederic W. Cook & Co. to serve as its external consultant effective December 1, 2007. The services performed by Mr. Cook and Frederic W. Cook & Co. have been exclusively limited to executive compensation consulting for the Compensation Committee. Mr. Cook and Frederic W. Cook & Co. are prohibited from undertaking any work with PepsiCo management or employees. Mr. Cook provides recommendations on CEO pay directly to the Compensation Committee without consulting PepsiCo's Chairman & CEO or management.

**Peer Group.** The Compensation Committee and Board utilize the same peer group to annually evaluate both executive officer pay levels and Company performance. The peer group is currently composed of large public consumer products companies with a strong brand focus that we compete with for executive officer talent. The Compensation Committee annually reviews and validates the peer group with the assistance of its external consultant to ensure all peer companies remain an appropriate basis for comparison. The Compensation Committee made no changes to the peer group in 2007. The following fourteen peer companies were approved by the Board, and are listed in order of 2007 revenue size (from largest to smallest):

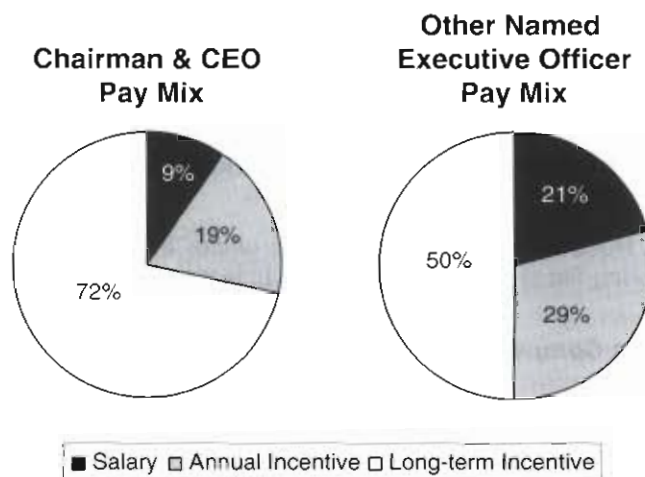
- The Procter & Gamble Company
- Johnson & Johnson
- Kraft Foods Inc.
- The Coca-Cola Company
- 3M Company



- Kimberly-Clark Corporation
- Anheuser-Busch Companies, Inc.
- Colgate-Palmolive Company
- General Mills, Inc.
- Sara Lee Corporation
- Kellogg Company
- H.J. Heinz Company
- Campbell Soup Company
- The Estee Lauder Companies Inc.

PepsiCo is the third largest company in the peer group, with 2007 revenue of \$39.5 billion compared to the peer group median of \$15.2 billion and 75<sup>th</sup> percentile of \$27.8 billion.

**Executive Compensation Policies.** Pay levels for executive officers are designed to be competitive relative to our peer group companies and, most importantly, align with the Company's performance. Pay-for-performance is a critical policy in designing our executive officer compensation. As a result, our "pay mix," defined as the amount of at-risk annual and long-term cash incentive awards and at-risk equity-based awards relative to total compensation, places the greatest emphasis on performance-based incentives. As illustrated in the following charts, consistent with market practice, over 90% of our Chairman & CEO's target total compensation (excluding change in pension value, benefits and perquisites) is variable and at-risk, and approximately 80% of the target total compensation (excluding change in pension value, benefits, perquisites and severance, in the case of Ms. Hudson) for our other Named Executive Officers is variable and at-risk:



To sustain PepsiCo's exceptional long-term performance, we set "stretch" financial goals that support our stated long-range objective of achieving at least 10% earnings per share growth on an annual basis. Our financial goals are generally set to meet our peer group's 75<sup>th</sup> percentile performance (i.e., the top 25% of peer companies). Our objective is to compensate at the 75<sup>th</sup> percentile relative to our peer group only when we achieve performance at or above the 75<sup>th</sup> percentile of our peer group. To accomplish this, we annually review compensation (base salary, annual incentive awards and long-term incentive awards) provided by our peer group to set target total compensation levels for our executive officers at the peer group median for similar positions. We then utilize variable pay incentives to award pay in line with our performance. Our design ensures that our pay-for-performance programs only deliver total compensation at the 75<sup>th</sup> percentile when financial performance is at or above the peer group 75<sup>th</sup> percentile. If financial performance were to be below the peer group 75<sup>th</sup> percentile, total compensation awarded would be below the 75<sup>th</sup> percentile.

In 2007, the Committee's external consultant provided an opinion to the Committee that PepsiCo's executive officer total compensation program was appropriately aligned with PepsiCo's financial performance and that the programs should continue to support the attraction and retention of talent necessary to maintain our long history of strong sales growth, profitability and shareholder returns.

**Tax Considerations.** In establishing total compensation for the executive officers, the Compensation Committee considers the effect of Section 162(m) of the Internal Revenue Code ("IRC"). IRC Section 162(m) generally disallows a tax deduction for compensation over \$1,000,000 paid for any fiscal year to each "covered employee" (generally, the chief executive officer and the three other highest paid executive officers other than the chief financial officer) unless the compensation qualifies as performance-based. While the Compensation Committee's general policy is to preserve the deductibility of most compensation paid to executive officers, it believes that the primary objective of the compensation program is to support the Company's business strategy. Thus, the Committee believes it should have flexibility in awarding compensation, even though some compensation awards may result in non-deductible compensation expenses.

For 2007, the executive compensation programs had the following implications under IRC Section 162(m):

- Base salaries for all Named Executive Officers except the Chairman & CEO were fully deductible in 2007 as those salaries were at or under \$1 million.
- Annual incentive awards and performance-based long-term cash awards were paid based on achievement of performance measures under the shareholder-approved 2004 Executive Incentive Compensation Plan. As a result, cash incentive awards are deductible as performance-based under IRC Section 162(m).
- Stock option awards were provided under the shareholder-approved 2003 Long-Term Incentive Plan and are deductible as performance-based under IRC Section 162(m).
- Performance-based Restricted Stock Unit awards were provided under the shareholder-approved 2003 Long-Term Incentive Plan and are paid out based on achievement of performance measures. As a result, the performance-based RSUs are deductible as performance-based under IRC Section 162(m).
- Because Ms. Hudson was not an executive officer at the end of 2007, the compensation paid to her during fiscal year 2007 was not subject to IRC Section 162(m).

#### ***Components of PepsiCo's Compensation and Benefits Programs***

For 2007, the primary components of our compensation and benefits programs for executive officers were (1) base salary, (2) annual incentive awards, (3) long-term incentive awards, (4) retirement programs and (5) benefits and perquisites. These components promote the compensation objectives described in the "Compensation Philosophy" section of this Compensation Discussion and Analysis and are underpinned by the governance features highlighted at the end of this Compensation Discussion and Analysis (page 25 of this Proxy Statement).

**1. Base Salary.** Base salary is the "fixed" component of executive compensation intended to meet the objective of attracting and retaining the executive officers necessary to lead the Company. The relative levels of base salary for the Chairman & CEO and the other executive officers are based on the underlying accountabilities of each executive officer's position and reflect each executive officer's scope of responsibility. The salaries are reviewed annually by the Compensation Committee and are benchmarked against similar positions among the peer group companies. In addition, executive officer salaries are analyzed relative to internal positions to ensure equity and alignment of our pay within PepsiCo. Base salaries paid to our Named Executive Officers in 2007 are presented under column (c) in the 2007 Summary Compensation Table (page 27 of this Proxy Statement).

**2. Annual Incentive Compensation.** We provide performance-related annual incentive compensation opportunities to our executive officers under the shareholder-approved 2004 Executive Incentive Compensation Plan ("2004 EIC Plan"). Awards under the 2004 EIC Plan are designed to provide annual incentives to drive Company, business unit and individual performance.

*Setting the Maximum Award for Tax Deductibility:* Awards are intended to be fully deductible for federal income tax purposes under Section 162(m) of the Internal Revenue Code. To achieve this, we establish each executive officer's maximum award based on pre-approved earnings growth targets. For the Chairman & CEO and the Chief Financial Officer, earnings growth is measured as earnings per share (EPS)\*. For the Division CEOs, earnings growth is measured based on achievement of 100% of a division's planned net operating profit before taxes (NOPBT). After the Compensation Committee certifies that the EPS and division NOPBT targets have been met, the Committee then exercises discretion to reduce, but not to increase, the amount of the award.

In 2007, PepsiCo's actual EPS growth of 13% exceeded the target EPS growth of ~10%, funding individual awards for the Chairman & CEO and Chief Financial Officer at the maximum level. Division NOPBT targets were also met for 2007, funding individual awards for the Division CEOs at the maximum level. Because the 2007 incentive awards were each fully funded, the Committee exercised its discretion in determining the amount of the actual incentive awards provided to all Named Executive Officers. The description below outlines how actual annual incentives are determined.

*Determining the Actual Award:* When determining actual incentive awards paid to our executive officers, the Compensation Committee considers both Company financial performance and individual performance. For our Chairman & CEO, performance is evaluated in a non-formulaic manner with no specific weighting given to the performance measures. For our other executive officers, Company performance is weighted approximately two-thirds and individual performance is weighted approximately one-third.

The range of potential incentive awards for each Named Executive Officer is listed under columns (c), (d) and (e) in the 2007 Grants of Plan-Based Awards table on page 30 of this Proxy Statement. The actual payout can range from 0% to 200% of a Named Executive Officer's target incentive opportunity. If financial performance with respect to a specific measure is above or below target, actual payout will be leveraged above or below the target incentive opportunity.

*Individual Performance Measures:* Individual performance is evaluated based on measures related to an individual's contribution to PepsiCo's strategic business imperatives, such as improved operating efficiencies and driving PepsiCo's *Performance with Purpose* priorities in the areas of human sustainability, environmental sustainability and talent sustainability. The strategic business imperatives are intended to be challenging. They can be both qualitative and quantitative and vary for each executive officer. There is no specific weighting given to the various strategic imperatives and individual performance is determined by the Compensation Committee in a non-formulaic manner.

\* In order to ensure the performance measures accurately reflect the performance of the Named Executive Officers and the Company's ongoing results, the Committee has decided that for compensation purposes NOPBT, Net Income and EPS growth targets exclude certain events. In 2007, we recognized \$129 million of non-cash tax benefits related to the favorable resolution of certain foreign tax matters and \$70 million (after-tax) of restructuring and impairment charges in connection with previously announced plant closings, production line rationalizations and costs associated with our recent divisional reorganization. These items are included when computing NOPBT, Net Income and EPS growth in accordance with generally accepted accounting principles and are excluded for compensation purposes.

**Company Performance Measures:** Our annual incentive plan utilizes Company performance measures which executives directly influence to ensure a direct link between performance and actual incentive awards. The specific 2007 Company performance measures used to determine incentive awards for PepsiCo's Named Executive Officers are listed in the table below along with the weighting assigned to each performance measure for the Company performance portion of the annual incentive award. These performance measures relate to corporate-wide (PepsiCo) performance and division (e.g., Pepsi-Cola North America) performance depending on the Named Executive Officer's position and scope of responsibility. Our corporate-wide financial performance objectives include EPS growth and consolidated net income and net revenue growth. Similar objectives for divisions are NOPBT growth and net revenue growth. In addition to these objectives, a market share growth target for each division is established and, when achieved, can raise a Named Executive Officer's Company performance score by up to 25% (i.e., this could raise the total bonus score by up to 16.5% since the Company portion represents approximately two-thirds of the total bonus score).

<u>Name</u>	<u>Company Performance Measures and Weightings*</u>
Indra K. Nooyi	– EPS Growth & Net Revenue Growth
Richard A. Goodman	– 50% Net Income Growth & 50% Net Revenue Growth
Michael D. White	– PepsiCo International: 50% NOPBT Growth & 50% Net Revenue Growth
John C. Compton	– PepsiCo N. America: 50% NOPBT Growth & 50% Net Revenue Growth
Albert P. Carey	– Frito-Lay N. America: 50% NOPBT Growth & 50% Net Revenue Growth
Dawn Hudson	– PepsiCo Beverages N. America, Pepsi-Cola N. America & Foodservice: 50% NOPBT Growth & 50% Net Revenue Growth

\* For our Chairman & CEO, performance is evaluated in a non-formulaic manner with no specific weighting given to the performance measures.

**Results:** After the end of 2007, the Compensation Committee evaluated PepsiCo's performance against the 2007 performance measures described above and determined each Named Executive Officer's actual incentive award. In determining annual incentive awards for the Chairman & CEO and the Chief Financial Officer in 2007, the Compensation Committee considered actual Company performance against the corresponding pre-established performance targets as noted in the table below. These targets may be subject to adjustments for a number of items, which may include, but are not limited to, unanticipated changes in the competitive environment, currency fluctuations, merger and acquisition activity and changes in accounting:

<u>COMPANY PERFORMANCE MEASURES</u>	<u>TARGET</u>	<u>ACTUAL 2007 PERFORMANCE</u>
Net Revenue Growth	~8%	12%
Net Income Growth	~9%	11%
EPS Growth	~10%	13%

For the Division CEOs, division NOPBT and net revenue growth targets were challenging and were set to approximate the 75<sup>th</sup> percentile of our peer group, meaning that targets were set to fall within the top 25% of peer companies. The actual incentive awards determined by the Compensation Committee for each Named Executive Officer are included in column (g) in the 2007 Summary Compensation Table on page 27 of this Proxy Statement.



**3. Long-Term Incentive Compensation.** Consistent with our compensation philosophy, we believe that stock ownership and stock-based incentive awards are the best way to align the interests of the executive officers with those of PepsiCo's shareholders. We have a long history of linking pay to our long-term stock performance for all employees, not just executives. This is best demonstrated by the fact that, since 1989, we have provided an annual grant of stock options to virtually all full-time U.S. employees under SharePower, our broad-based stock option program.

Executive officers' long-term incentives are comprised of:

- (a) Stock options,
- (b) Performance-based restricted stock units (RSUs) that vest only if pre-approved performance targets are achieved,
- (c) Performance-based long-term cash awards that vest over three years (our Chairman & CEO is not eligible for this component), and
- (d) Retention equity grants to key senior leaders that vest based on continued service.

The annual executive officer long-term incentive program is designed to deliver a mix of approximately 40% stock options, 40% performance-based RSUs and 20% performance-based long-term cash. This mix was selected to provide an equal balance of equity (options and performance-based RSUs) and also to provide a portion delivered in performance-based long-term cash that reflects market practice. Most executives are provided with a choice between stock options and RSUs that vest after three years of service. However, PepsiCo's executive officers, including the Chairman & CEO and the other Named Executive Officers, are not provided with this choice. The value of the annual equity award for these executive officers is balanced equally between stock options and performance-based RSUs.

Target grant guidelines for executive officers vary by position and are based on competitive benchmarking, with target grant levels expressed in dollars (rather than as a percent of salary) and set to approximate the peer group median. The actual size of grants awarded to executive officers can range from 0% to 150% of target and are determined based on Company and individual performance as well as retention considerations. We require that annual option and performance-based RSU awards made under the long-term incentive plans include vesting terms that encourage an executive officer to remain with PepsiCo for a number of years.

Upon approval and recommendation by the Compensation Committee, the Board authorizes all equity grants awarded to employees and directly approves individual awards to executive officers. Stock option and RSU grants are awarded under our shareholder-approved long term incentive plans at "Fair Market Value," defined as the average of the high and low stock prices rounded up to the nearest quarter on the date of grant. This formula mitigates the impact of our stock price's intra-day volatility when setting the grant price of equity awards. PepsiCo does not backdate, reprice or grant equity awards retroactively. Repricing of awards would require shareholder approval under the shareholder-approved 2003 and 2007 Long-Term Incentive Plans. PepsiCo's grant practices ensure all grants are made on fixed grant dates and at exercise prices or grant prices equal to the Fair Market Value on such dates. Our annual grant, if approved by the Board, is provided on the later of February 1<sup>st</sup> or the regularly scheduled January/February Board meeting. On February 2, 2007, the Board granted stock options and performance-based RSUs to all executive officers with a grant price of \$65.00 (the average of the low and high price on the date of grant, rounded up to the nearest quarter).

**3(a). Stock Options.** We believe that stock options represent performance-based compensation and are a powerful motivational tool, as they have no intrinsic value to recipients on the date of grant and they only deliver meaningful value to executive officers if PepsiCo achieves sustained, long-term stock price growth. In addition, the number of stock options an executive officer receives each year can vary from 0% to 150% of target based on Company and individual performance as described above. Subject to Compensation Committee and Board approval, executive officers receive annual grants of stock options each February that generally vest after three years of service and expire after ten years. Executive officers who retire from the Company at age 55 through age 61 with at least 10 years of service are eligible to vest in a pro-rata portion of their stock option grants

based on the length of time served in proportion to the full vesting period. Executive officers who retire from the Company at or after age 62 are eligible to vest in the full stock option grant. Dividends are not earned on stock option grants. The 2007 grant date fair value of stock option awards to our Named Executive Officers are presented under column (m) in the 2007 Grants of Plan-Based Awards table on page 30 of this Proxy Statement.

**3(b). Performance-Based Restricted Stock Units.** Subject to Compensation Committee and Board approval, grants of performance-based RSUs are provided to executive officers annually from 0 to 150% of target based on Company and individual performance as described above. These awards vest based on PepsiCo achieving pre-established annual EPS targets for each year in a three-year performance period. These EPS performance targets are established each year by the Compensation Committee and the Board of Directors, and are aligned with our stated long-range objective of achieving at least 10% EPS growth on an annual basis. EPS targets for the performance-based RSUs have never been adjusted or "reset," and management does not have the authority to do so.

Annual EPS targets are set at the beginning of each year during the three-year performance period in order to achieve approximately 75<sup>th</sup> percentile financial performance relative to the peer group. When these EPS targets are achieved over the three-year performance period, executive officers are eligible to receive the full award. If PepsiCo were to perform below the pre-established annual EPS target in any of the three years during the performance period, the number of shares paid out would be proportionately reduced. No shares would be paid out if PepsiCo were to perform below the estimated peer group median during all three years of the performance period. In no circumstances would the award be increased, even if PepsiCo were to exceed the EPS target.

Notwithstanding the attainment of the EPS targets over the three-year performance period, the Board and Compensation Committee retain the right to reduce, but not increase, the size of the award that would otherwise be paid. Executive officers forfeit all performance-based RSUs if they leave PepsiCo prior to the completion of the three-year performance period. Executive officers who retire from the Company at age 55 through age 61 with at least 10 years of service are eligible to vest in a pro-rata portion of their stock option grants based on the length of time served in proportion to the full vesting period. Executive officers who retire from the Company at or after age 62 are eligible to vest in the full performance-based RSU grant. However, payment of the final award remains contingent on achieving the applicable performance targets.

In February 2008, PepsiCo's 2007 actual EPS growth of 13% exceeded the Board's pre-established target EPS growth of ~10% for that performance year. As a result, the Compensation Committee certified that the EPS target was achieved for the final third of the performance-based RSUs granted in 2005 along with the second third of the performance-based RSUs granted in 2006 and the first third of the performance-based RSUs granted in 2007.

The 2007 grant date fair value of performance-based RSUs to our Named Executive Officers is included under column (m) in the 2007 Grants of Plan-Based Awards table on page 30 of this Proxy Statement. Executive officers earn dividend equivalents on their RSUs during the vesting period that are paid out (without interest) only if and when the corresponding RSUs vest.

**3(c). Performance-Based Long-Term Cash.** Executive officers, with the exception of the Chairman & CEO, have a performance-based long-term cash target award opportunity (expressed as a percent of salary). The Chairman & CEO is not eligible because a competitive performance-based long-term cash opportunity would not provide meaningful retention in relation to the market-based equity opportunity. The amount of the actual award (as a percent of target) is determined based on achievement of the same annual performance goals used for annual incentive compensation (see "Annual Incentive Compensation" discussion on page 19 of this Proxy Statement for details). However, the long-term cash award vests and pays out in equal installments over three years, with the first installment paid out immediately after the award is earned. The executive officers only receive the full



value of these awards if they remain employed through the vesting period. Executive officers who retire from the Company are eligible to receive the full value of their unvested performance-based long-term cash awards. The value of the 2007 performance-based long-term cash awards to our Named Executive Officers is included under column (g) in the 2007 Summary Compensation Table on page 27 of this Proxy Statement. The value of performance-based long-term cash awards earned in 2005 and 2006, but paid in 2007, is included in footnote 7 to the Summary Compensation Table.

**3(d). Retention Grants.** The Board of Directors may selectively award retention equity grants to leaders who are critical to business continuity and growth. These awards typically consist of RSUs with vesting periods designed to facilitate retention through key business and/or career milestones. The awards have no value unless the executive remains employed with PepsiCo for the full vesting period, and the awards are cancelled if the executive terminates or retires. However, if an executive dies or goes on long-term disability, a pro-rata portion of the retention grant will vest based on the length of time served in proportion to the full vesting period. Retention awards were not granted to any Named Executive Officer in 2007.

**4. Retirement Programs.** Our retirement programs consist of defined benefit pension plans, retiree medical coverage, retiree life insurance, and a 401(k) Plan. Our defined benefit pension plans are designed to facilitate the retirement of employees who have performed at PepsiCo over the long term. Benefits are calculated based on service, base salary and annual incentive compensation. Awards of stock options, RSUs and performance-based long-term cash are not considered when determining pension benefits. Executive benefits are calculated using the same formula as other salaried employees; however, because of IRS compensation and benefit limits applicable to PepsiCo's qualified pension plan, a significant portion of an executive officer's pension is typically provided by a non-qualified, unfunded pension plan. As a result, pension benefits are provided to Named Executive Officers under two plans, a qualified and a non-qualified plan. The present value of each Named Executive Officer's accumulated benefit under the qualified and non-qualified pension plans are set forth in the 2007 Pension Benefits table on page 33 of this Proxy Statement. The narrative following the 2007 Pension Benefits table describes the plans' material features.

Named Executive Officers are eligible for retiree medical coverage. This benefit is available to all salaried employees based on age and service, and our executives who enroll for coverage are required to pay twice as much for their coverage as other retirees. Named Executive Officers are also eligible for retiree life insurance equal to 100% of eligible pay (i.e., base salary and annual incentive award) upon death in retirement at age 55, declining by 10% per year thereafter, with a \$5,000 maximum benefit beginning at age 65.

Executive deferrals into the 401(k) Plan and Company matching contributions are also limited by IRS regulations. While the Company does permit most executives to defer their base salary and annual incentive compensation, PepsiCo does not provide an excess plan to offset 401(k) limitations nor do we provide executives with special benefit plans such as executive life insurance.

## **5. Benefits and Perquisites**

**5(a). Benefits.** Executives generally receive the same healthcare benefits as other employees. U.S.-based medical benefits are the same for all participants in the Company's healthcare program; however, our executives are required to pay twice as much for their coverage. All of our employees, including executive officers, are eligible to participate in HealthRoads, PepsiCo's broad-based wellness program. HealthRoads provides our employees with personal health coaching recommendations and encouragement to reach exercise, weight management, nutrition, smoking cessation and stress management goals. In addition, executive officers who relocate at PepsiCo's request are supported under the relocation program available to all PepsiCo employees. The program covers relocation expenses and applicable reimbursement of taxes associated with moving.

**5(b). Perquisites.** Consistent with our philosophy of making compensation primarily performance-based, executive perquisites are limited to a company car and annual physical. As part of the company car program, executive officers have the option of receiving a hybrid automobile supplied through the Company (including insurance, maintenance and fuel) or a monthly payment in lieu of the automobile benefit. Personal use of company aircraft and ground transportation are also available and are utilized on a limited and selective basis, with executives fully responsible for their tax liabilities associated with any personal use of aircraft and ground transportation. Executive officers do not receive other perquisites such as country clubs, financial planning or company-paid apartments.

In October 2007, Ms. Nooyi's participation in the company car program was discontinued, and the Compensation Committee authorized increased personal use of the Company's ground transportation in lieu of a company car. Ms. Nooyi's use of a car and driver for commuting and business enhances security and personal safety and increases her time available for business purposes.

**5(c). Change-in-Control Provisions.** All employees, including Named Executive Officers, and non-employee directors are provided change-in-control protections for their equity awards under our shareholder-approved long-term incentive plans. For all grants in 2007 and thereafter, stock options vest and RSUs are paid if the participant is terminated without cause or resigns for good reason within two years following a change in control of PepsiCo or if the acquiring entity fails to assume the awards ("double trigger"). We adopted "double trigger" vesting to ensure management talent would be available to assist in the successful integration following a change in control and to align with emerging governance trends.

For all grants prior to 2007, stock options vest and RSUs are paid upon a change in control of PepsiCo. In the event a participant is terminated without cause within two years following the change in control or the participant's options are adversely modified, the participant receives a payment equal to the present value of his or her outstanding pre-2007 options at the time of such event calculated using the Black-Scholes formula.

Named Executive Officers are not eligible to receive any cash severance, continued health and welfare benefits, pension service credit, tax gross-ups or any other change-in-control benefits other than the change-in-control protections under our long-term incentive plans described above.

**5(d). Executive Deferral.** Under PepsiCo's executive deferral program, most U.S.-paid executives can elect to defer all or a portion of their base salary or annual cash incentive awards into phantom investment funds which grow on a tax-deferred basis. Prior to 2004, stock option gains and performance-based long-term cash awards were also eligible for deferral. If stock options were deferred, they were required to have been exercised within one month of expiration and the gains were required to have been deferred into the PepsiCo Common Stock Fund. Executives have the opportunity to invest their deferrals into nine market-based funds, including the PepsiCo Common Stock Fund. Beginning in 2007, an investment fund was offered that earns interest at 120% of the Long-term Applicable Federal Rate (as published by the U.S. Treasury). Prior to December 31, 2006, an investment fund was offered that earned interest at market Prime Rate. In 2006, the difference between Prime Rate and 120% of the Long-term Applicable Federal Rate was approximately 1.9%. This difference accounted for the above-market interest reflected in the 2006 compensation values reported in column (h) of the 2007 Summary Compensation Table on page 27 of this Proxy Statement. The change in 2007 from the Prime Rate fund to the new fund directly aligns with the Securities and Exchange Commission's definition of "on market" investment returns, thus PepsiCo did not report any "above market" earnings in 2007, and does not expect to do so in the future.

PepsiCo does not match an executive's deferrals. PepsiCo's executive deferral program is non-qualified and unfunded where deferred compensation is unsecured and at-risk, meaning the balances may be forfeited in the event of the Company's financial distress such as bankruptcy. The narrative following the 2007 Non-Qualified Deferred Compensation table on page 35 of this Proxy Statement describes the plan's material features.



## ***Additional Features of our Executive Compensation Programs***

Our compensation and benefit programs operate with the following governance features:

***Stock Ownership.*** To reinforce our ownership philosophy, the Board has established stock ownership guidelines for executive officers. Under those guidelines, executive officers are required to own shares of PepsiCo stock equal to a specified multiple of their salary. The applicable multiples vary between two and eight times base salary based on an executive officer's position:

– CEO .....	8x
– Division CEOs .....	4x
– All Other Executive Officers .....	2x

PepsiCo shares or equivalents held directly by the executive officer (or immediate family members), in the 401(k) Plan, deferred compensation account, or in a trust for the benefit of immediate family members, count towards satisfying the requirement. Unexercised stock options and unvested restricted stock units do not count towards satisfying the requirement.

Executive officers have five years from their appointment to meet their ownership guideline requirement. All of our executive officers have met or are on track to meet their objectives within the five-year time requirement.

***Exercise and Hold Policy.*** To ensure that our executive officers exhibit a strong commitment to PepsiCo share ownership, the Board of Directors adopted an Exercise and Hold Policy. Under this policy, annual option exercises and sales for cash are limited to 20% of pre-tax gains on all vested outstanding options on the annual equity grant date for that year. Any proceeds in excess of this 20% limit must be held in PepsiCo shares for at least one year after the date of exercise.

***Employment Contracts and Separation Agreements.*** Named Executive Officers, including the Chairman & CEO, do not have employment contracts. Consistent with our approach of rewarding performance, employment is not guaranteed; thus the Company or the Named Executive Officer may terminate the employment relationship at any time. In some cases, the Compensation Committee or Board of Directors may agree to provide separation payments to departing executives upon their termination to obtain an extended non-compete, non-solicitation and non-disclosure agreement and a release of claims. Ms. Hudson entered into a separation agreement with PepsiCo in November 2007, which is described on page 36 of this Proxy Statement.

***Clawback Provision.*** Under the terms of our long-term incentive plans and our executive deferral program, employees, including Named Executive Officers, who violate PepsiCo's Worldwide Code of Conduct, who violate our non-compete, non-solicitation and non-disclosure policies or who engage in gross misconduct may be subject to financial consequences. Our long-term incentive plans permit PepsiCo to cancel an executive's outstanding equity awards, including both vested and unvested awards, if PepsiCo determines that the executive has committed any such violation. Our long-term incentive plans and our executive deferral program also permit PepsiCo to recover all gains from exercised stock options and vested RSUs received within the 12 months preceding the violation, as well as any gains earned on contributions to the Company's executive deferral program.

***Hedging.*** Our insider trading policy prohibits executive officers from using any strategies or products (e.g. derivative securities or short-selling techniques) to hedge against the potential changes in the value of PepsiCo stock.

***Trading Windows.*** Executive officers can only purchase and sell PepsiCo stock and exercise stock options during approved trading windows, which generally open two days after PepsiCo issues its quarterly earnings release.

## **Summary**

PepsiCo's compensation practices and compensation philosophy are designed to align executive interests with those of shareholders. We believe our pay programs, which have a strong pay-for-performance orientation, will continue to assist the Company to attract, retain and motivate the key talent PepsiCo needs to continue to compete and provide strong return to shareholders.

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## **COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference into the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2007.

### **THE COMPENSATION COMMITTEE**

ARTHUR C. MARTINEZ, CHAIRMAN  
VICTOR J. DZAU  
RAY L. HUNT

SHARON PERCY ROCKEFELLER  
DANIEL VASELLA

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## 2007 SUMMARY COMPENSATION TABLE

The following table summarizes the compensation of the Named Executive Officers for the fiscal year ended December 29, 2007. The Named Executive Officers are the Company's Chief Executive Officer, Chief Financial Officer and certain other executive officers who were most highly compensated in fiscal year 2007 by reference to their total compensation in the table below (excluding amounts disclosed in the "Change in Pension Value and Non-Qualified Deferred Compensation Earnings" column).

Name and Principal Position (a)	Year (b)	Salary \$(4) (c)	Bonus \$(5) (d)	Stock Awards \$(6) (e)	Option Awards \$(6) (f)	Non-Equity Incentive Plan Compensation \$(7) (g)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings \$(8) (h)	All Other Compensation \$(9) (i)	Total(\$) (j)
<b>Indra K. Nooyi (1)</b> Director; Chairman of the Board and Chief Executive Officer	2007	1,300,000	0	3,231,973	2,829,423	3,200,000	825,085	404,071	11,790,552
	2006	964,413	0	2,006,876	2,353,440	3,000,000	898,884	344,775	9,568,388
<b>Richard A. Goodman</b> Chief Financial Officer	2007	565,385	0	1,080,718	233,026	822,998	414,308	98,640	3,215,075
	2006	470,508	0	619,224	290,339	696,007	491,459	65,927	2,633,464
<b>Michael D. White</b> Director; Vice Chairman, PepsiCo; Chief Executive Officer, PepsiCo International	2007	1,000,000	0	3,856,878	1,579,970	2,408,000	1,712,966	615,209	11,173,023
	2006	894,856	0	2,519,696	1,555,591	2,812,000	1,194,115	305,660	9,281,918
<b>John C. Compton (2)</b> Chief Executive Officer, PepsiCo Americas Foods	2007	860,000	0	1,755,745	1,581,404	1,474,549	522,455	2,102,043	8,296,196
	2006	767,212	0	733,719	1,567,322	1,360,681	414,828	178,753	5,022,515
<b>Albert P. Carey (3)</b> President and Chief Executive Officer, Frito-Lay North America	2007	735,000	0	1,221,099	947,300	1,327,410	450,680	375,717	5,057,206
<b>Dawn Hudson</b> Former President and Chief Executive Officer, Pepsi-Cola North America	2007	735,000	0	2,838,599	2,176,401	1,269,860	250,495	4,375,312	11,645,667
	2006	731,154	0	1,108,620	1,541,332	1,114,518	383,373	131,246	5,010,243

- (1) Effective May 2, 2007, Ms. Nooyi assumed the duties of Chairman of the Board in addition to the responsibilities as Chief Executive Officer of PepsiCo.
- (2) Effective November 5, 2007, Mr. Compton became the Chief Executive Officer for PepsiCo Americas Foods in connection with the realignment of PepsiCo's organizational structure. Prior to the reorganization, Mr. Compton served as Chief Executive Officer of PepsiCo North America.
- (3) Mr. Carey was not a named executive officer for 2006. As a result, only 2007 compensation information is included in the Summary Compensation Table.
- (4) Salary amounts reflect the actual base salary payments made to the Named Executive Officers in 2007 and 2006. In 2007, Mr. White deferred \$150,000 of his \$1,000,000 base salary. For further details, see the 2007 Non-Qualified Deferred Compensation table on page 35.
- (5) "Bonus" refers to cash annual incentive payments that are not performance-based. In 2007 and 2006, no such payments were made to any Named Executive Officer, as all cash incentives were performance-based and are reflected in column (g) of the table above, labeled "Non-Equity Incentive Plan Compensation."
- (6) Stock awards and stock option awards represent restricted stock unit and stock option grants for which PepsiCo recorded a 2007 and 2006 compensation expense. Under the required FAS 123R methodology, the compensation expense reflected in columns (e) and (f) is for grants made in 2007 and 2006 and grants made in prior years which continue to be expensed. The full FAS 123R grant date fair value of the stock and stock option awards granted in 2007 is included in column (m) in the 2007 Grants of Plan-Based Awards table on page 30. The assumptions used in calculating the FAS 123R compensation expense of the stock and stock option awards are provided in the Company's Annual Report on Form 10-K for the applicable fiscal years which are available at [www.pepsico.com](http://www.pepsico.com). In accordance with FAS 123R the value reported in the stock awards and stock option awards columns reflects the accelerated vesting of Ms. Hudson's 2005 and 2006 option and performance-based RSU awards in connection with her separation from PepsiCo, which is further described on page 36.



- (7) As described in the "Annual Incentive Compensation" and "Performance-based Long-Term Cash" sections of the Compensation Discussion and Analysis on pages 19 and 22, the amounts reported in this column reflect compensation earned for performance under the annual incentive compensation program and the full value of the performance-based long-term cash award, which is paid out in three equal annual installments based on continued service. Amounts reported in 2007 and 2006 reflect amounts earned for annual performance in those respective years.
- (i) For Ms. Nooyi, the amount reported for 2007 reflects compensation earned for 2007 performance under the annual incentive compensation program. The amount does not include a performance-based long-term cash award, as Ms. Nooyi is not eligible to participate in that program. In addition to the amounts listed in the table, in March 2008, Ms. Nooyi received \$209,333 representing the final one-third of the performance-based long-term cash award earned for 2005 performance.
  - (ii) For Mr. Goodman, the amount reported for 2007 reflects \$573,438 earned for 2007 performance under the annual incentive compensation program and \$249,560 earned under the performance-based long-term cash incentive program. In addition to the amounts listed in the table, in March 2008, Mr. Goodman received \$55,213 representing the final one-third of the performance-based long-term cash award earned for 2005 performance and \$72,335 representing one-third of the performance-based long-term cash award earned for 2006 performance.
  - (iii) For Mr. White, the amount reported for 2007 reflects \$1,806,000 earned for 2007 performance under the annual incentive compensation program and \$602,000 earned under the performance-based long-term cash incentive program. In addition to the amounts listed in the table, in March 2008, Mr. White received \$212,173 representing the final one-third of the performance-based long-term cash award earned for 2005 performance and \$234,333 representing one-third of the performance-based long-term cash award earned for 2006 performance.
  - (iv) For Mr. Compton, the amount reported for 2007 reflects \$1,105,912 earned for 2007 performance under the annual incentive compensation program and \$368,637 earned under the performance-based long-term cash incentive program. In addition to the amounts listed in the table, in March 2008, Mr. Compton received \$138,950 representing the final one-third of the performance-based long-term cash award earned for 2005 performance and \$118,967 representing one-third of the performance-based long-term cash award earned for 2006 performance.
  - (v) For Mr. Carey, the amount reported for 2007 reflects \$973,434 earned for 2007 performance under the annual incentive compensation program and \$353,976 earned under the performance-based long-term cash incentive program. In addition to the amounts listed in the table, in March 2008, Mr. Carey received \$98,990 representing the final one-third of the performance-based long-term cash award earned for 2005 performance and \$110,618 representing one-third of the performance-based long-term cash award earned for 2006 performance.
  - (vi) For Ms. Hudson, the amount reported for 2007 reflects \$931,230 earned for 2007 performance under the annual incentive compensation program and \$338,630 earned under the performance-based long-term cash incentive program, of which \$112,877 was paid out in March 2008 and \$225,753 was forfeited due to her separation. In addition to the amounts listed in the table, in March 2008, Ms. Hudson received \$122,443 representing the final one-third of the performance-based long-term cash award earned for 2005 performance and \$99,068 representing one-third of the performance-based long-term cash award earned for 2006 performance. The final third of her 2006 award was forfeited due to her separation.
- (8) The amounts reported reflect (i) the aggregate change in 2007 and 2006 in the actuarial present value of each Named Executive Officer's accumulated benefit under the defined benefit pension plans in which he or she participates and (ii) in 2006 only, the "above-market" earnings, if any, on income previously earned and deferred by each Named Executive Officer under PepsiCo's executive deferral program. The executive deferral program is described in the "Executive Deferral" section of the Compensation Discussion and Analysis on page 24. As noted in the Compensation Discussion and Analysis, the change at the beginning of 2007 from the Prime Rate fund to a new fund that earns interest at 120% of the Long-term Applicable Federal Rate directly aligned with the Securities and Exchange Commission's definition of "on market" investment returns and eliminated any "above-market" earnings for 2007 and beyond. The change in pension value included in column (h) reflects changes in age, service and earnings during 2007 and the effect of a change in the discount rate from 5.80% on September 30, 2006 to 6.15% on September 30, 2007 used to determine the present value. Details on the methodology for calculating PepsiCo's pension plan accumulated benefit obligation are included in the narrative description to the 2007 Pension Benefits table on page 33.
- (9) Amounts reported in this column include personal use of company aircraft and ground transportation, car allowance and applicable taxes, relocation and international assignment benefits and tax reimbursement on such benefits, executive physical benefits, the Company's matching contribution into the PepsiCo Salaried 401(k) Plan, accrued dividends earned in the respective year on unvested RSUs, and Ms. Hudson's separation payment described on page 36 of this Proxy Statement. The amounts previously reported for 2006 have been restated to include the accrued dividends on unvested RSUs earned in 2006. The following table provides detail for the amounts reported in this column for 2007 for each Named Executive Officer.

Name	Personal Use of Company Aircraft <sup>(A)</sup> (\$)	Personal Use of Ground Transportation <sup>(A)</sup> (\$)	Car Expenses <sup>(B)</sup> (\$)	Relocation (\$)	401(k) Company Matching Contributions (\$)	International Assignments (\$)	Miscellaneous (\$)	Accrued Dividends(\$)	Separation Benefits (\$)	Total All Other Compensation (\$)
I. Nooyi	57,928	8,238	17,639	0	6,750	0	1,660	311,856	0	404,071
R. Goodman	0	0	24,137	0	4,500	0	0	70,003	0	98,640
M. White	70,940	0	24,137	0	6,750	163,870 <sup>(D)</sup>	2,267	347,245	0	615,209
J. Compton	73,395	241	24,137	1,817,615 <sup>(C)</sup>	7,750	0	100	178,805	0	2,102,043
A. Carey	252,629	49	24,138	0	0	0	0	98,901	0	375,717
D. Hudson	42,528	15	24,594	0	6,750	0	2,387	181,538	4,137,500 <sup>(E)</sup>	4,375,312

(A) Personal use of Company aircraft and ground transportation is valued based on the aggregate incremental cost to the Company. For this purpose, the Company has calculated the aggregate incremental cost based on the variable operating costs that were incurred as a result of personal use of the aircraft (such as fuel, maintenance, landing fees and crew expenses) or ground transportation (such as fuel and the driver's compensation). The Named Executive Officers are fully responsible for all personal income taxes associated with any personal use of aircraft and ground transportation.

(B) In October 2007, Ms. Nooyi's participation in the company car program was discontinued, and the Compensation Committee authorized increased personal use of the Company's ground transportation in lieu of the company car. Ms. Nooyi's use of a car and driver for commuting and business enhances security and personal safety and increases her time available for business purposes. Ms. Nooyi's car allowance is inclusive of applicable taxes of \$6,129. Mr. Goodman, Mr. White, Mr. Compton and Mr. Carey's car allowance is inclusive of applicable taxes of \$8,387. Ms. Hudson's car expense is inclusive of applicable taxes of \$8,387.

(C) As a result of PepsiCo's request to relocate Mr. Compton from Chicago to the Purchase area to assume his role as Chief Executive Officer of PepsiCo North America, Mr. Compton's relocation was supported under the relocation program available to all PepsiCo employees. The program covers relocation expenses and applicable reimbursement of taxes associated with moving. These relocation expenses include direct home sale expenses (i.e., broker commissions, appraisals, inspection), the Company's carrying costs of the house between Mr. Compton's relocation and the home sale (i.e., interest, property taxes, insurance, utilities, maintenance), loss on home sale due to adverse housing market conditions, and \$312,256 in applicable taxes.

(D) Mr. White's International Assignment expenses represent incremental taxes that were required to be paid by the Company to Switzerland in 2007 as a result of his assignment outside the United States during 2003.

(E) Represents payment provided under the separation agreement Ms. Hudson entered into in November 2007, as described on page 36 of this Proxy Statement.

## 2007 GRANTS OF PLAN-BASED AWARDS <sup>(1)</sup>

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (2)			Estimated Future Payouts Under Equity Incentive Plan Awards (3)			All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards (\$/Sh) (k)	Closing Market Price on the Grant Date (l)	Grant Date Fair Value of Stock and Option Awards (\$) (4) (m)
		Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)					
Indra K. Nooyi	—	0	2,600,000	5,200,000	—	—	—	—	—	—	—	—
	2/2/2007	—	—	—	0	75,824	75,824	—	—	—	—	4,928,560
	2/2/2007	—	—	—	—	—	—	—	304,220	\$65.00	\$65.04	4,904,026
Richard A. Goodman	—	0	520,833	1,041,667	—	—	—	—	—	—	—	—
	—	0	226,667	453,333	—	—	—	—	—	—	—	—
	2/2/2007	—	—	—	0	10,286	10,286	—	—	—	—	668,590
Michael D. White	—	0	1,500,000	3,000,000	—	—	—	—	—	—	—	—
	—	0	500,000	1,000,000	—	—	—	—	—	—	—	—
	2/2/2007	—	—	—	0	23,736	23,736	—	—	—	—	1,542,840
John C. Compton	—	0	1,032,000	2,064,000	—	—	—	—	—	—	—	—
	—	0	344,000	688,000	—	—	—	—	—	—	—	—
	2/2/2007	—	—	—	0	20,769	20,769	—	—	—	—	1,349,985
Albert P. Carey	—	0	808,500	1,617,000	—	—	—	—	—	—	—	—
	—	0	294,000	588,000	—	—	—	—	—	—	—	—
	2/2/2007	—	—	—	0	12,857	12,857	—	—	—	—	835,705
Dawn Hudson	—	0	808,500	1,617,000	—	—	—	—	—	—	—	—
	—	0	294,000	588,000	—	—	—	—	—	—	—	—
	2/2/2007	—	—	—	0	11,143	11,143	—	—	—	—	724,295
	2/2/2007	—	—	—	—	—	—	—	45,225	\$65.00	\$65.04	729,027

- (1) Details on PepsiCo's long-term incentive programs are described in the "Long-Term Incentive Compensation" section of the Compensation Discussion and Analysis on pages 21-23. Stock option and performance-based restricted stock unit awards were granted on the date of Board approval, with both the stock option exercise and the performance-based restricted stock unit base price determined based on the average of the high and low price of PepsiCo Common Stock on the date of grant rounded up to the next highest quarter.
- (2) The amounts reported include the potential range of incentive awards for 2007 under the annual incentive compensation program and the performance-based long-term cash incentive program, as described in the "Annual Incentive Compensation" and "Performance-based Long-Term Cash" sections of the Compensation Discussion and Analysis on pages 19 and 22. For Ms. Nooyi, the range reflects the potential payout under the annual incentive program and does not include potential awards under the performance-based long-term cash award, as she is not eligible to participate in that program. For the other Named Executive Officers, the numbers in the first row reflect the potential payout range under the annual incentive program and the numbers in the second row reflect the potential payout range under the performance-based long-term cash program.
- (3) The amounts reported in the "target" and "maximum" columns reflect the maximum number of performance-based restricted stock units granted to each Named Executive Officer on February 2, 2007. These awards will vest and be paid out in February 2010 only if PepsiCo achieves annual EPS targets in each of the three performance years in the three-year vesting period and if the officer remains employed with PepsiCo through the vesting date. However, Mr. Goodman, Mr. White and Mr. Carey, who are currently retirement eligible, would be eligible to vest into a pro-rata portion of the award at retirement. The "maximum" and "target" values are the same and cannot be increased above target, even if PepsiCo were to exceed the earnings target. If PepsiCo were to perform below the pre-established EPS targets in any of these years, the number of shares earned for that year would be reduced. Additional details are described on the "Performance-based Restricted Stock Units" section of the Compensation Discussion and Analysis on page 22.
- (4) The amounts reported represent the aggregate grant date fair value of all long-term incentive awards (restricted stock units and stock options) granted to Named Executive Officers in 2007 following the required FAS 123R compensation expense methodology. The assumptions used in calculating the FAS 123R compensation expense of the stock and stock option awards are provided in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2007 which is available at [www.pepsico.com](http://www.pepsico.com).



# 2007 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END <sup>(1)</sup>

Name (a)	Option Awards				Stock Awards (3)				
	Number of Securities Underlying Unexercised Options (#) Exercisable (b)	Number of Securities Underlying Unexercised Options (#) Unexercisable (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price (\$) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (4) (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$) (j)
Indra K. Nooyi		304,220		\$65.00	1/31/2017	105,820 (2)	8,151,315	75,824	5,840,723
		375,000 (2)		\$45.51	7/25/2016			17,974	1,384,537
		72,705		\$57.50	1/31/2016			19,228	1,481,133
		77,777		\$53.75	1/31/2015				
	88,444			\$47.25	1/31/2014				
	235,379			\$39.75	1/31/2013				
	175,932			\$50.00	1/31/2012				
	375,000			\$45.51	7/25/2011				
	197,293			\$43.50	1/31/2011				
	104,125			\$34.00	1/31/2010				
Richard A. Goodman		41,597		\$65.00	1/31/2017	15,385 (2)	1,185,107	10,286	792,331
		360		\$57.50	1/31/2016	11,361	875,138		
		385		\$53.75	1/31/2015	12,093	931,524		
	55,464			\$47.25	1/31/2014				
	81,458			\$39.75	1/31/2013				
	55,260			\$50.00	1/31/2012				
	10,955			\$44.50	1/31/2011				
	41,379			\$43.50	1/31/2011				
	13,013			\$43.25	1/31/2010				
Michael D. White		95,660		\$65.00	1/31/2017	76,923 (2)	5,925,379	23,736	1,828,384
		72,705		\$57.50	1/31/2016	105,820 (2)	8,151,315	17,974	1,384,537
		150,000 (2)		\$43.50	1/31/2016			19,228	1,481,133
		77,777		\$53.75	1/31/2015				
	88,444			\$47.25	1/31/2014				
	235,966			\$39.75	1/31/2013				
	147,180			\$50.00	1/31/2012				
	310,603			\$43.50	1/31/2011				
	96,508			\$34.00	1/31/2010				
	180,769			\$32.25	1/31/2010				
John C. Compton		83,792		\$65.00	1/31/2017	80,321 (2)	6,187,127	20,769	1,599,836
		150,000 (2)		\$41.50	7/17/2017			12,596	970,270
		51,124		\$57.50	1/31/2016			11,791	908,261
		47,799		\$53.75	1/31/2015				
		150,000 (2)		\$39.50	7/28/2014				
	42,629			\$47.25	1/31/2014				
	108,590			\$39.75	1/31/2013				
	150,000			\$41.50	7/17/2012				
	76,100			\$50.00	1/31/2012				
	82,185			\$43.50	1/31/2011				
	60,041			\$34.00	1/31/2010				
	87,296			\$32.25	1/31/2010				
	150,000			\$39.50	7/28/2009				
Albert P. Carey		52,083		\$65.00	1/31/2017	34,188 (2)	2,633,502	12,857	990,375
		44,757		\$57.50	1/31/2016			11,022	849,025
		46,065		\$53.75	1/31/2015			11,337	873,289
	54,466			\$47.25	1/31/2014				
	168,262			\$39.75	1/31/2013				
		100,000 (2)		\$41.50	7/17/2012				
	100,000			\$41.50	7/17/2012				
	91,110			\$50.00	1/31/2012				
	111,398			\$43.50	1/31/2011				
	88,489			\$34.00	1/31/2010				
	56,779			\$32.25	1/31/2010				
Dawn Hudson	50,385			\$57.50	1/31/2016			12,596	970,270
	50,791			\$53.75	1/31/2015			12,698	978,127
	58,593			\$47.25	1/31/2014				
	2,719			\$39.75	1/31/2013				
	1,747			\$50.00	1/31/2012				
	1,592			\$43.50	1/31/2011				

- (1) For information on the material terms and conditions of the equity awards reported in this table, please see the "Long-Term Incentive Compensation" section of the Compensation Discussion and Analysis on pages 21-23. No stock options or RSUs granted to a Named Executive Officer have been transferred to any other person, trust or entity. With the exception of the retention grants discussed in footnote 2 below, each of the stock option and performance-based RSU awards listed in the table vest three years after the Grant Date subject to continued service with PepsiCo through the vesting date and, in the case of performance-based RSUs, achievement of applicable earnings targets.
- (2) These Board-approved awards were designed to facilitate retention of leaders who are critical to business continuity and growth. The vesting periods of these awards vary by individual and were designed to facilitate retention through key business and/or career milestones. The awards have no value unless the Named Executive Officer remains employed with PepsiCo for the full vesting period and are cancelled if he or she terminates employment or retires prior to the end of the vesting period. For example, Ms. Hudson's retention grant of 200,000 stock options, 30,769 RSUs and 46,154 RSUs which would have vested on July 18, 2012, September 15, 2011 and September 15, 2009, respectively, were forfeited in November 2007 pursuant to her separation agreement. The retention grants have the following vesting periods:

#### Option Awards

<u>Name</u>	<u>Number of Options</u>	<u>Exercise Price</u>	<u>Vesting Period</u>	<u>Vesting Date</u>	<u>Expiration Date</u>
I. Nooyi	375,000	\$45.51	10 years	7/26/2011	7/25/2016
M. White	150,000	\$43.50	10 years	2/1/2011	1/31/2016
J. Compton	150,000	\$41.50	10 years	7/18/2012	7/17/2017
J. Compton	150,000	\$39.50	10 years	7/29/2009	7/28/2014
A. Carey	100,000	\$41.50	7 years	7/18/2009	7/17/2012

#### Stock Awards

<u>Name</u>	<u>Number of RSUs</u>	<u>Vesting Period</u>	<u>Vesting Date</u>
I. Nooyi	105,820	5 years	2/1/2009
R. Goodman	15,385	3 years	9/15/2009
M. White	76,923	3 years	9/15/2009
M. White	105,820	5 years	2/1/2009
J. Compton	48,193	8 years	11/17/2014
J. Compton	32,128	4 years	11/17/2010
A. Carey	17,094	5 years	11/18/2010
A. Carey	17,094	3 years	11/18/2008

- (3) The market value of unvested RSUs and unvested performance-based RSUs reflected in columns (h) and (j) have been valued by multiplying the number of unvested RSUs reflected in columns (g) and (i), respectively, by \$77.03, PepsiCo's closing stock price on December 28, 2007, the last business day of the 2007 fiscal year.
- (4) The reported awards reflect grants of performance-based RSUs which will vest and pay out based on the achievement of annual EPS targets during a three-year performance period and require that the Named Executive Officer continues to provide service to PepsiCo through the end of the performance period. However, Mr. Goodman, Mr. White and Mr. Carey, who are currently retirement eligible, would be eligible to vest into a pro-rata portion of the award at retirement. The number of shares displayed in column (i) reflects the maximum number of shares that would be earned if PepsiCo were to meet or exceed its pre-established EPS targets in each of the three years. If PepsiCo were to perform below the pre-established EPS targets in any of the three years, the number of shares earned each year would be reduced. For additional details please see the "Performance-based Restricted Stock Units" section of the Compensation Discussion and Analysis on page 22 and the 2007 Grants of Plan-Based Awards table on page 30.

## **2007 OPTION EXERCISES AND STOCK VESTED**

Name (a)	Options (1)		RSUs (2)	
	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise (\$) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting (\$) (e)
Indra K. Nooyi	179,783	6,231,141	21,865	1,394,550
Richard A. Goodman	0	0	5,595	363,899
Michael D. White	77,308	2,252,624	21,865	1,394,550
John C. Compton	121,431	3,645,493	10,476	668,159
Albert P. Carey	118,753	4,222,892	13,413	855,481
Dawn Hudson	704,445	20,741,538	14,444	921,238

(1) All stock option exercises during 2007 were executed in a manner consistent with our Exercise and Hold Policy, which is described in the "Additional Features of our Executive Compensation Programs" section of the Compensation Discussion and Analysis on page 25.

(2) For Ms. Nooyi, Mr. White, Mr. Compton, Mr. Carey and Ms. Hudson, the amounts reported represent the value realized on the vesting of the performance-based RSUs granted in February 2004, which vested on February 1, 2007 subject to Board approval of pre-defined EPS targets for each year in a three-year performance period. A detailed overview of performance-based RSUs is provided in the "Performance-Based Restricted Stock Units" section of the Compensation Discussion and Analysis on page 22. For Mr. Goodman, the amounts reported represent the value realized on the vesting of service-based RSUs granted prior to his promotion to an executive officer position. The amounts above do not include the dividends earned and paid from the RSUs that vested. The following dividend equivalent amounts were paid out as a result of the RSUs vesting in 2007: Ms. Nooyi, \$66,032; Mr. Goodman, \$6,490; Mr. White, \$66,032; Mr. Compton, \$31,638; Mr. Carey, \$40,507 and Ms. Hudson, \$43,621.

## **2007 PENSION BENEFITS**

Name (a)	Plan Name (b)	Number of Years Credited Service (#) (c)	Present Value of Accumulated Benefit (\$) (d)	Payments During Last Fiscal Year (\$) (e)
Indra K. Nooyi	PepsiCo Salaried Employees Retirement Plan	14	321,180	0
	PepsiCo Pension Equalization Plan		4,094,719	0
Richard A. Goodman	PepsiCo Salaried Employees Retirement Plan	14	643,643	0
	PepsiCo Pension Equalization Plan		1,832,138	0
Michael D. White	PepsiCo Salaried Employees Retirement Plan	18	556,419	0
	PepsiCo Pension Equalization Plan		5,842,856	0
John C. Compton	PepsiCo Salaried Employees Retirement Plan	24	346,587	0
	PepsiCo Pension Equalization Plan		1,983,378	0
Albert P. Carey	PepsiCo Salaried Employees Retirement Plan	26	689,813	0
	PepsiCo Pension Equalization Plan		3,992,614	0
Dawn Hudson	PepsiCo Salaried Employees Retirement Plan	11	234,666	0
	PepsiCo Pension Equalization Plan		1,488,642	0

The Named Executive Officers participate in two pension plans: the Salaried Employees Retirement Plan ("Salaried Plan"), which is qualified under the Internal Revenue Code, and the Pension Equalization Plan ("PEP"), which is an unfunded, non-tax-qualified restoration plan. The Salaried Plan provides retirement benefits to essentially all U.S. salaried employees of the Company. The PEP restores benefits that may not be paid from the Salaried Plan due to limitations imposed by

the Internal Revenue Code on qualified plan compensation or benefits. PEP benefits are payable to any salaried employee whose benefits are affected by these limits. Payment of PEP benefits to senior executives that are subject to Section 409A of the Internal Revenue Code are delayed by six months.

Both the Salaried Plan and the PEP have the same requirements for participation, benefits eligibility and vesting at five years of service. Benefits are determined using the same formula in both plans. Named Executive Officers do not receive any additional service or other enhancements in determining the form, timing or amount of their benefits.

Normal retirement benefits are payable at age 65 with five years of service. Unreduced early retirement benefits are payable as early as age 62 with 10 years of service. Reduced early retirement benefits are payable as early as age 55 with 10 years of service and are determined by reducing the normal retirement benefit by 4% for each year prior to age 62. Currently, Richard Goodman, Mike White and Al Carey have met the eligibility requirements for early retirement. See page 36 for a description of the effect of Ms. Hudson's separation from the Company on her pension benefits.

Upon retirement, pension plan benefits are payable as a single life annuity, a single lump sum distribution, a joint and survivor annuity, or a 10-year certain annuity. The value of the single life annuity beginning at a Named Executive Officer's normal retirement date is determined by the following formula:

- 3% for each year of service up to 10 years, plus 1% for each year of service in excess of 10, multiplied by the executive's highest consecutive five-year average monthly earnings;
- reduced by 0.43% of the executive's highest consecutive five-year average monthly earnings up to his or her monthly Social Security Covered Compensation, multiplied by the executive's years of service up to 35.

Pensionable earnings include base salary and annual incentive awards. Awards of stock options, restricted stock units and performance-based long-term cash are not considered when determining pension benefits.

All salaried employees of the Company, including Named Executive Officers, who become disabled after 10 years of service and remain disabled until retirement, will receive service credit under the pension plan for their period of disability.

All salaried employees of the Company, including Named Executive Officers, are entitled to the following benefits if they die before payments are scheduled to begin:

- The spouse of an employee who has five years of service is entitled to 25% of the benefits the employee would have received if employment had continued to age 65.
- Alternatively, the spouse of an employee who is retirement eligible is entitled to a pension equal to 50% of the spouse's pension, if greater than the benefit described above.
- All employees who are retirement eligible are also entitled to a one-time payment equal to the lump sum benefit accrued at death, offset by the value of any surviving spouse's pension that might be payable. (This special death benefit is paid by the Company; it is not an accrued benefit payable from the Salaried Pension Plan.)

A participant with five or more years of service who terminates employment prior to attaining age 55 and completing ten years of service is entitled to a deferred vested pension benefit. The deferred vested benefit is equal to the basic formula prorated by a fraction, the numerator of which is the participant's credited years of service at termination of employment and the denominator of which is the participant's potential years of credited service had the participant remained employed to age 65. Deferred vested benefits are payable commencing at age 65. However, a participant may elect to commence benefits as early as age 55 on an actuarially reduced basis to reflect the longer payment period.



The present value of the accumulated retirement benefits reported in column (d) of the 2007 Pension Benefits table represents the accumulated benefit obligation for benefits earned to date, based on age, service and earnings through the measurement date of September 2007. These amounts have been calculated using actuarial methods and assumptions (as shown below) in the fiscal year-end valuation under Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* with the assumption, required by the Securities and Exchange Commission's disclosure rules, that each Named Executive Officer remains in service until retiring at the earliest date when unreduced retirement benefits are available (i.e., age 62):

- Discount rate of 6.15%; and
- Benefits will be converted to lump sums based on the following interest rates in effect at retirement: 5.11% in 2008, grading to 5.55% in 2012.

### 2007 NON-QUALIFIED DEFERRED COMPENSATION <sup>(1)</sup>

Name (a)	Executive Contributions in Last Fiscal Year (\$) (b)	Registrant Contributions in Last Fiscal Year (\$) (c)	Aggregate Earnings in Last Fiscal Year (\$) (d)	Aggregate Withdrawals/ Distributions (\$) (e)	Aggregate Balance at Last Fiscal Year End (\$) (2) (f)
Indra K. Nooyi	0	0	1,171,341	0	10,935,189
Richard A. Goodman	0	0	72,794	0	1,409,918
Michael D. White	150,000	0	3,639	0	153,639
John C. Compton	0	0	538,893	0	2,864,081
Albert P. Carey	0	0	0	0	0
Dawn Hudson	0	0	0	0	0

(1) The deferred compensation balances reported in column (f) represent previously earned compensation that employees voluntarily chose to defer into PepsiCo's executive deferral program. The executive deferral program is a non-qualified and unfunded program in which the account balances are unsecured and at risk, meaning that balances may be forfeited in the event of the Company's financial distress such as bankruptcy. At the time of election to defer, executives are required to choose to receive future payments on either a specific date or upon separation from service (i.e., termination or retirement). The Company does not match any employee deferral or guarantee a return. Payments are made in cash and may be received as a lump sum or in installments (quarterly, semi-annually or annually) over a period up to 20 years. Notwithstanding a participant's payment election, deferrals are paid at the time of termination in cases when termination (other than retirement) occurs prior to the elected payment date. Any payments to senior executives that are subject to Section 409A of the Internal Revenue Code are delayed six months following separation from service. Executives have one opportunity to voluntarily delay their original payment date, provided they make this choice at least twelve months prior to the original payment date and payment of amounts subject to Section 409A of the Internal Revenue Code is delayed for at least five years. For additional detail on PepsiCo's executive deferral programs, refer to the "Executive Deferral" section of the Compensation Discussion and Analysis on page 24.

(2) Deferral balances of Named Executive Officers were earned based on the following phantom funds in 2007 which earned the following rates of return: (i) PepsiCo Common Stock Fund: 23.7%, (ii) Defined AFR Fund: 5.9%, (iii) Fidelity Equity Income Fund: 1.4%, (iv) Fidelity Diversified International Fund: 16.0%, (v) Vanguard Large Cap Equity Index Fund: 5.5%, (vi) Vanguard Mid-Cap Index Fund: 6.2%, (vii) Dodge & Cox Fixed Income Fund: 4.7% and (viii) Security Plus: 5.2%.

## **POTENTIAL PAYMENTS ON TERMINATION OR CHANGE IN CONTROL**

### ***Termination of Employment/Retirement***

None of our Named Executive Officers has any arrangement that provides for severance payments or benefits, except for Ms. Hudson, with whom the Company entered into a separation agreement in November 2007 in connection with her departure from the Company.

Ms. Hudson resigned her position as President & CEO of Pepsi-Cola North America on November 5, 2007 and, at the conclusion of a transition period ending on February 15, 2008, ended her employment with the Company. In connection with her departure, Ms. Hudson received a \$4.1 million cash payment and the Company accelerated the vesting of her 2005 and 2006 annual option and performance-based RSU awards, with these performance-based RSU awards remaining subject to the subsequent achievement of pre-established annual EPS performance targets. These accelerated options and performance-based RSUs had an aggregate intrinsic value of \$3.6 million at the time of acceleration when Ms. Hudson resigned her position on November 5, 2007. In exchange for these benefits, Ms. Hudson released the Company from all claims and agreed not to disclose the Company's confidential information, compete against the Company or solicit the Company's employees for a two-year period. Ms. Hudson forfeited options, RSUs and performance-based long-term cash incentives with an aggregate value of \$13.4 million when she resigned her position on November 5, 2007. As Ms. Hudson is leaving prior to meeting the requirements for early or normal retirement, she remains eligible only for a deferred vested pension benefit.

In the event a Named Executive Officer retires, terminates or resigns from PepsiCo for any reason as of the fiscal year end, he or she would be entitled to:

- the pension value disclosed in column (d) of the 2007 Pension Benefits table on page 33 and
- the non-qualified deferred compensation balance disclosed in column (f) of the 2007 Non-Qualified Deferred Compensation table on page 35.

In addition, our performance-based long-term cash awards fully vest upon retirement (at least age 55 with 10 or more years of service). Our long-term incentive equity awards contain provisions that accelerate vesting of option and RSU awards on a pro-rata basis upon retirement from age 55 through age 61 and that fully accelerate vesting of option and RSU awards upon death, disability or retirement on or after age 62. Even after vesting, performance-based RSUs remain subject to achievement of pre-established EPS performance targets. In contrast, for retention grants, no accelerated vesting occurs upon retirement and only a pro-rata portion would have accelerated vesting in the event of death or long term disability.

The following table sets forth, for each Named Executive Officer, the value of the unvested options, RSUs, accrued dividends on RSUs, and performance-based long-term cash awards that would vest if his or her employment terminated on December 28, 2007, the last business day of the 2007 fiscal year, due to termination, retirement, death or long-term disability:

Name	Termination/Retirement (\$ in millions)*		Death/Long-Term Disability (\$ in millions)*	
	Accelerated Vesting	Unvested/Forfeited	Accelerated Vesting	Unvested/Forfeited
I. Nooyi	0.0	36.3	30.2	6.1
R. Goodman	2.2	2.5	4.0	0.7
M. White	6.8	22.8	22.7	6.9
J. Compton	0.0	24.4	15.3	9.1
A. Carey	4.0	8.0	10.0	2.0

\* The options and RSUs were valued at a price of \$77.03, PepsiCo's closing stock price on December 28, 2007, the last business day of the 2007 fiscal year. Amounts do not include the value of vested options that have already been earned. For a list of vested options that have already been earned, please see the 2007 Outstanding Equity Awards at Fiscal Year End table on page 31.

## Change in Control

As described in the Compensation Discussion and Analysis on page 24, all options and RSU grants made prior to 2007 vest upon a change in control of PepsiCo, and, if the participant is terminated without cause within two years thereafter, the participant will receive a payment equal to the Black-Scholes value of any pre-2007 options outstanding at that time. For all grants beginning in 2007, PepsiCo implemented "double trigger" vesting, meaning unvested options and RSUs only vest if the participant is terminated without cause or resigns for good reason within two years following a change in control of PepsiCo or if the acquirer fails to assume or replace the outstanding awards.

The following table shows (i) the value of stock options, RSUs and accrued dividends on RSUs that would vest upon a change-in-control of PepsiCo without termination of employment and (ii) the incremental value of the stock options, RSUs and accrued dividends on RSUs that would vest upon a Named Executive Officer's termination without cause or for good reason at the time of the change in control plus the excess of the Black-Scholes value above the intrinsic value of already vested options that would become payable at that time. The combination of columns (i) and (ii) below results in a maximum change-in-control benefit listed in column (iii).

	Change In Control (\$ in millions)		
	(i)	(ii)	(iii)
Name	Total Benefit: Change in Control Only*	Incremental Benefit: Qualifying Termination upon Change in Control**	Total Benefit: Qualifying Termination upon Change in Control (i) plus (ii) **
I. Nooyi	26.7	12.2	38.9
R. Goodman	3.1	1.3	4.4
M. White	25.9	4.6	30.5
J. Compton	21.4	4.0	25.4
A. Carey	10.0	2.5	12.5

\* Assumes that the change in control occurred on December 28, 2007, the last business day of the 2007 fiscal year. The options and RSUs were valued based on PepsiCo's \$77.03 closing stock price on December 28, 2007. Amounts do not include vested options that have already been earned due to continued service. For a list of vested options that have already been earned, please see the 2007 Outstanding Equity Awards at Fiscal Year End table on page 31.

\*\* Assumes that both the change in control and termination occurred on December 28, 2007, the last business day of the 2007 fiscal year. The options and RSUs were valued based on PepsiCo's \$77.03 closing stock price on December 28, 2007. In addition, vested and unvested options granted prior to 2007 include the excess of the Black-Scholes value above the intrinsic value. The Black-Scholes value of the pre-2007 options is calculated using assumptions for the calculation of the FAS 123R compensation expense as provided in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2007 which is available at [www.pepsico.com](http://www.pepsico.com). Amounts do not include vested options that have already been earned due to continued service. For a list of vested options that have already been earned, please see the 2007 Outstanding Equity Awards at Fiscal Year End table on page 31.



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## **2007 DIRECTOR COMPENSATION**

Directors who are employees of the Company receive no additional compensation for serving as directors. Non-employee directors receive the compensation described below.

*Annual Compensation.* Effective October 1, 2007, all active non-employee directors receive an annual cash retainer of \$100,000 and an annual equity award of \$150,000. Committee chairs and the Presiding Director, who does not serve as a committee chair, receive an additional \$20,000 annual retainer for the supplemental duties associated with their additional responsibilities. Directors may elect to receive their retainer in cash or defer their retainer into phantom units of PepsiCo Common Stock, which are payable in cash at the end of the deferral period selected by the directors. The \$150,000 annual equity award consists of phantom units of PepsiCo Common Stock which are payable on the first day of the calendar quarter following the first anniversary of the director's retirement or resignation from PepsiCo's Board of Directors. The number of phantom units of PepsiCo Common Stock granted to each director on October 1, 2007 was determined by dividing the \$150,000 equity award value by the closing price of PepsiCo Common Stock on the date of grant. As such, each active director was granted 2,027 phantom stock units. Prior to 2007, the annual equity grant to non-employee directors had a grant value of \$100,000. In 2006, the annual equity grant was equally split between stock and stock options and, before that, it was equally split between RSUs and stock options. The Board increased the grant value of the annual equity grant and eliminated stock option and stock grants in order to align with current market practice.

Directors are reimbursed for expenses incurred to attend Board and committee meetings. Directors do not receive any meeting fees, nor do they have a retirement plan or receive any benefits such as life or medical insurance. Directors do receive insurance coverage for business travel and accident. Directors are eligible for PepsiCo Foundation gifts to charity and matching of charitable contributions, both of which are generally available to all PepsiCo employees.

*Initial Share Grant.* All newly appointed non-employee directors receive a one-time grant of 1,000 shares of PepsiCo Common Stock when they join the Board. These shares must be held until they leave the Board.

*Governance Features.* Our compensation program for non-employee directors operates with the following governance features which are similar to programs for executive officers as described on page 25 of the Compensation Discussion and Analysis:

*Stock Ownership.* To reinforce our ownership philosophy, non-employee directors are required to own shares of PepsiCo stock equal to \$200,000. PepsiCo shares or equivalents held directly by the non-employee director (or immediate family members), deferred compensation account, or in a trust for the benefit of immediate family members, count towards satisfying the requirement. Unexercised stock options and unvested restricted stock units do not count towards satisfying the requirement. Non-employee directors have five years from their appointment to meet their ownership guideline requirement. All of our non-employee directors have met or are in a position to meet their objectives within the five-year time requirement.

*Exercise and Hold Policy.* To ensure that non-employee directors exhibit a strong commitment to PepsiCo share ownership, the Board of Directors adopted an Exercise and Hold Policy. Under this policy, annual option exercises for cash are limited to 20% of pre-tax gains on all vested outstanding options as of February 1 of that year. Any proceeds in excess of this 20% limit must be held in PepsiCo shares for at least one year after the date of exercise.

*Clawback Provision.* Under the terms of our long-term incentive plans, non-employee directors who violate PepsiCo's Worldwide Code of Conduct, who violate our non-compete, non-solicitation and non-disclosure policies or who engage in gross misconduct may be subject

to financial consequences. Our long-term incentive plans permit PepsiCo to cancel a non-employee director's outstanding equity awards, including both vested and unvested awards, if PepsiCo determines that the non-employee director has committed any such violation. The long-term incentive plans also permit PepsiCo to claw back all gains from exercised stock options and vested RSUs received within the 12 months preceding the violation.

**Hedging.** Our insider trading policy prohibits non-employee directors from using any strategies or products (e.g. derivative securities or short-selling techniques) to hedge against the potential changes in the value of PepsiCo stock.

**Trading Windows.** Non-employee directors can only purchase and sell PepsiCo stock and exercise stock options during approved trading windows.

**2007 Non-Employee Director Compensation.** The following table summarizes the compensation of the non-employee directors for the fiscal year ended December 29, 2007.

Name (a)	Fees Earned or Paid in Cash \$(3) (b)	Stock Awards \$(5)(6) (c)	Option Awards \$(5) (d)	Non-Equity Incentive Plan Compensation\$( (e)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings\$( f)	All Other Compensation\$(7) (g)	Total\$( (h)
Dina Dublon	100,000	166,665	26,241	0	0	21,255	314,161
Victor J. Dzau	100,000	172,925	19,112	0	0	1,744	293,781
Ray L. Hunt	120,000	166,665	42,258	0	0	1,255	330,178
Alberto Ibarguen	100,000	166,665	19,112	0	0	1,255	287,032
Arthur C. Martinez	128,333 <sup>(4)</sup>	185,902	19,112	0	0	22,839	356,186
Sharon P. Rockefeller	128,333 <sup>(4)</sup>	166,665	42,258	0	0	21,255	358,511
James J. Schiro	120,000	166,665	42,258	0	0	1,255	330,178
Daniel Vasella	100,000	185,902	19,112	0	0	2,839	307,853
John F. Akers <sup>(1)</sup>	0	48,722	33,813	0	0	10,717	93,252
Robert E. Allen <sup>(1)</sup>	0	29,485	56,959	0	0	264	86,708
Franklin A. Thomas <sup>(1)</sup>	0	39,104	45,386	0	0	491	84,981
Cynthia M. Trudell <sup>(2)</sup>	0	35,902	33,813	0	0	0	69,715

(1) Effective May 2, 2007, Mr. Akers, Mr. Allen and Mr. Thomas retired from the Board of Directors.

(2) Effective February 2, 2007, Ms. Trudell retired from the Board of Directors and became the SVP of Human Resources and Chief Personnel Officer of PepsiCo.

(3) In 2007, the following directors elected to defer cash compensation into the Director's Fee Deferral Plan: V. Dzau, A. Ibarguen, D. Vasella deferred their \$100,000 retainer into 1,351 phantom units of PepsiCo Common Stock equivalents; and R. Hunt, A. Martinez and J. Schiro deferred their \$120,000 retainer into 1,621 phantom units of PepsiCo Common Stock equivalents.

(4) In May 2007, Arthur Martinez assumed the Chair of the Compensation Committee and Sharon Rockefeller assumed the role of Presiding Director. As a result of this change, Mr. Martinez and Ms. Rockefeller received a pro-rated payment of \$8,333 for providing service as a committee chair between May and September 2007.

(5) Stock awards represent the FAS 123R expense related to phantom stock units and restricted stock units, and stock option awards represent the FAS 123R expense related to stock option grants for which, in both cases, PepsiCo recorded a 2007 compensation expense. Under the required FAS 123R methodology, the compensation expense reflected in columns (c) and (d) are for grants made in 2007 and grants made in prior years which continue to be expensed in 2007. The assumptions used in calculating the FAS 123R compensation expense of the option and stock awards are provided in the Company's Annual Report on Form 10-K for the applicable fiscal years which are available at [www.pepsico.com](http://www.pepsico.com). The expense reflected in column (c) includes \$150,000 of the phantom stock units granted on October 1, 2007.

The number of vested and unvested stock options and unvested RSUs held by each non-employee director at fiscal year end 2007 is shown below:

<u>Name</u>	<u>Number of Vested Options</u>	<u>Number of Unvested Options</u>	<u>Number of Unvested RSUs</u>
D. Dublon	0	7,958	881
V. Dzau	0	6,588	1,224
R. Hunt	71,357	6,588	881
A. Ibarguen	0	6,588	881
A. Martinez	30,097	6,588	881
S. Rockefeller	37,502	6,588	881
J. Schiro	22,859	6,588	881
D. Vasella	16,869	6,588	881
J. Akers	43,602	0	0
R. Allen	49,632	0	0
F. Thomas	29,760	0	0
C. Trudell	25,454	0	0

- (6) All deferred compensation balances (including cash retainers deferred on a voluntary basis and the phantom stock unit annual equity award) are automatically invested in PepsiCo phantom stock units. 2007 total earnings on the director deferral balances were as follows:

- D. Dublon: \$10,787
- V. Dzau: \$63,395
- R. Hunt: \$214,707
- A. Ibarguen: \$56,438
- A. Martinez: \$272,636
- S. Rockefeller: \$3,831
- J. Schiro: \$93,370
- D. Vasella: \$29,563
- J. Akers: \$31,431
- R. Allen: \$52,607
- F. Thomas: \$27,034
- C. Trudell: \$37,457

The earnings are based on changes in the stock price over the course of the year and reinvested dividends. The earnings reported for Mr. Akers, Mr. Allen, Mr. Thomas and Ms. Trudell are through their retirement dates from the Board of Directors.

- (7) The amounts reported in this column include accrued dividends earned in 2007 on unvested restricted stock units and PepsiCo Foundation matching gift contributions. PepsiCo Foundation matching gift contributions are available to all full-time PepsiCo employees, PepsiCo retirees, non-employee directors of PepsiCo and spouses of eligible individuals. Under the matching gift program, the PepsiCo Foundation matches cash or stock donations to recognized tax-exempt organizations, with PepsiCo Foundation annual contributions capped at \$10,000 or \$20,000 if an eligible individual provides significant and continuous ongoing voluntary services to a tax-exempt organization in addition to their financial contribution. The following directors had PepsiCo Foundation matching contributions: Ms. Dublon, \$20,000; Mr. Martinez, \$20,000; Ms. Rockefeller, \$20,000; and Mr. Akers, \$10,000.



## **SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The following table provides information as of December 29, 2007 with respect to the shares of PepsiCo Common Stock that may be issued under our equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a)) (c)
Equity compensation plans approved by security holders (1)	81,913,908 (2)	\$49.79 (6)	67,479,942 (3)
Equity compensation plans not approved by security holders (4)	33,706,672	\$42.76 (6)	—
<b>Total (5)</b>	<b>115,620,580</b>	<b>\$47.60 (6)</b>	<b>67,479,942</b>

- (1) Includes the 2007 Long-Term Incentive Plan (the "2007 LTIP"), the 2003 Long-Term Incentive Plan (the "2003 LTIP") and the 1994 Long-Term Incentive Plan.
- (2) This amount includes 7,369,928 restricted stock units that, if and when vested, will be settled in shares of PepsiCo Common Stock.
- (3) The shareholder-approved 2007 LTIP is the only equity compensation plan under which PepsiCo currently issues equity-based award. As of May 2, 2007, the 2007 LTIP superseded the Company's prior plan, the shareholder-approved 2003 LTIP, and no further awards were made under the 2003 LTIP. The 2007 LTIP permits the award of stock options, stock appreciation rights, restricted and unrestricted shares, restricted stock units and performance shares and units. As approved by shareholders, the 2007 LTIP authorizes a number of shares for issuance equal to 65,000,000 plus the number of shares underlying awards under the Company's prior equity compensation plans which are cancelled or expire after May 2, 2007 without delivery of shares.
- (4) Includes the 1995 Stock Option Incentive Plan, the SharePower Stock Option Plan and the Director Stock Plan, each of which is described below.
- (5) The table does not include information for equity compensation plans assumed by PepsiCo in connection with PepsiCo's merger with The Quaker Oats Company. Those plans include the Quaker Long Term Incentive Plan of 1990 and the Quaker Long Term Incentive Plan of 1999 (collectively, the "Quaker Plans"). As of December 29, 2007, a total of 557,204 shares of PepsiCo Common Stock were issuable upon the exercise of outstanding options which were granted under the Quaker Plans prior to the merger with PepsiCo. The weighted average exercise price of those options is \$22.45 per share. An additional 34,527 shares of PepsiCo Common Stock which are related to awards issued under the Quaker Plans prior to the merger have been deferred and will be issued in the future. No additional options or shares may be granted under the Quaker Plans.
- (6) Weighted average exercise price of outstanding options only.

### **Material Features of Plans Not Approved by Shareholders**

**1995 Stock Option Incentive Plan (the "SOIP").** The SOIP was adopted by the Board of Directors on July 27, 1995. Under the SOIP, stock options were granted to middle management employees generally based on a multiple of base salary. SOIP options were granted with an exercise price equal to the fair market value of PepsiCo Common Stock on the date of grant. SOIP options generally become exercisable at the end of three years and have a ten-year term. At year-end 2007, options covering 19,569,516 shares of PepsiCo Common Stock were outstanding under the SOIP. As of May 7, 2003, no further awards were made under the SOIP. The SOIP is included as Exhibit 10.14 in our 2002 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 7, 2003.

**SharePower Stock Option Plan (the "Share Power Plan").** The SharePower Plan was adopted by the Board of Directors on July 1, 1989. Under the SharePower Plan, options were generally granted each year to virtually all of our full-time employees based on a formula tied to annual earnings

and tenure. Each year, the Board of Directors authorized the number of shares required to grant options under the SharePower formula. SharePower options were granted with an exercise price equal to the fair market value of PepsiCo Common Stock on the date of grant. SharePower options generally become exercisable after three years and have a ten-year term. At year-end 2007, options covering 13,740,408 shares of PepsiCo Common Stock were outstanding under the SharePower Plan. As of May 7, 2003, no further awards were made under the SharePower Plan and it was superseded by the 2003 LTIP. SharePower awards are currently made under the 2007 LTIP. The SharePower Plan is included as Exhibit 10.13 in our 2002 Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 7, 2003.

**Director Stock Plan.** The Director Stock Plan was adopted by the disinterested members of the Board of Directors on July 28, 1988. Under the Director Stock Plan, stock options were granted and shares of PepsiCo Common Stock were issued to non-management directors. Options granted under the plan were immediately exercisable and have a ten-year term. As of year-end 2007, options covering 396,748 shares of PepsiCo Common Stock were outstanding under the Director Stock Plan. As of May 7, 2003, no further awards were made under the Director Stock Plan and it was superseded by the 2003 LTIP. The Director Stock Plan is included as Exhibit 4.3 in Post-Effective Amendment No. 6 to the Form S-8 related to such plan, filed with the Securities and Exchange Commission on September 4, 2002.

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## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16 of the Securities Exchange Act of 1934 requires PepsiCo's directors and executive officers to file reports of ownership and changes in ownership of PepsiCo Common and Convertible Preferred Stock. We received written representations from each such person who did not file an annual statement with the SEC on Form 5 that no Form 5 was due. To the best of PepsiCo's knowledge, in 2007, all required forms were filed on time with the Securities and Exchange Commission, except for a Form 4 for Cynthia Trudell to report one transaction that was not timely filed. In addition, Victor Dzau's Form 3 filing was amended to report shares of PepsiCo stock that were omitted from the original Form 3 filing.

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## **RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS (PROXY ITEM NO. 2)**

The Audit Committee engaged KPMG LLP ("KPMG") as PepsiCo's independent registered public accountants for 2008, subject to ratification by shareholders. KPMG has served as PepsiCo's independent auditors since 1990.

Representatives of KPMG will be available to answer appropriate questions at the Annual Meeting and are free to make statements during the meeting.

<p><b>The Board of Directors recommends that shareholders vote FOR the ratification of the appointment of KPMG as PepsiCo's independent registered public accountants for 2008.</b></p>
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## SHAREHOLDER PROPOSALS

If proposals are submitted by more than one shareholder, PepsiCo will only list the primary filer's name, address and number of shares held. We will provide information about co-filers promptly if we receive a request for the information.

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### **BEVERAGE CONTAINER RECYCLING (PROXY ITEM NO. 3)**

As You Sow, 311 California Street, Suite 510, San Francisco, CA 94104, who owns 118 shares of PepsiCo Common Stock, has submitted the following resolution for the reasons stated:

**"WHEREAS:** PepsiCo has repeatedly emphasized its commitment to environmental leadership. However, most Pepsi beverage containers in the U.S. continue to be landfilled, incinerated or littered, thereby contributing to depletion of natural resources, environmental pollution, and reducing the U.S. supply of plastic bottle and aluminum can feedstocks for recycling.

We are pleased that PepsiCo met its goal to incorporate 10% recycled content resin into its plastic beverage containers in North America by year-end 2005, and has maintained this goal for 2007. In addition, PepsiCo has joined with its beverage industry peers to form the Beverage Packaging Environmental Council (BPEC) in order to study declining beverage container recovery rates. However, BPEC has failed to adopt a public, quantitative beverage container recovery goal.

We believe both recycled content *and* container recovery goals are essential to an effective recycling strategy.

Unfortunately, the U.S. recycling rates for beverage containers have declined significantly in recent years. The Container Recycling Institute (CRI) estimates that the recovery rate for *PET plastic* beverage containers declined from 38% in 1995 to 22% in 2004, the most recent year for which data is available. CRI also reports, based on data from the Aluminum Association and the U.S. Department of Commerce, that the *aluminum* can recycling rate fell from 65% in 1992 to 45% in 2005.

Yet, significantly higher container recovery rates are possible. In 11 U.S. states with container deposit legislation (or bottle bills), beverage container recycling rates of 70% and higher are being achieved, levels on average three times as high as in states without deposits. In Norway and Sweden, beverage companies have achieved container recovery rates of 80% and higher.

Nevertheless, PepsiCo and beverage industry peers actively oppose container deposit systems *without* putting forth a sustainable plan capable of achieving comparable U.S. recovery rates.

**BE IT RESOLVED THAT** Shareowners of PepsiCo request that the board of directors review the efficacy of its container recycling program and prepare a report to shareholders, by September 1, 2008, on a recycling strategy that includes a publicly stated, quantitative goal for enhanced rates of beverage container recovery and recycling in the U.S. The report, to be prepared at reasonable cost, may omit confidential information.

### **SUPPORTING STATEMENT**

We believe the requested report is in the best interest of PepsiCo and its shareholders. Leadership in this area may protect the Pepsi brands and improve the company's reputation. We anticipate that the report will detail the means and feasibility of achieving, as soon as practicable, a sustainable, quantitative, beverage container recovery goal. The report should:

- explain PepsiCo's efforts to work with peers to establish industry-wide container recycling goals;



- identify factors that have contributed positively to any PepsiCo or third-party beverage container recovery programs worldwide that are achieving recovery rates in excess of 60%; and
- include a cost-benefit analysis of the different container recovery options available, such as curbside and drop-off recycling, drop-off programs, container deposit systems, and voluntary company and industry programs.

If you AGREE, please mark your proxy FOR this resolution."

**Response:** PepsiCo is proud of its efforts in support of recycling. Beverage containers, which represent less than 2% of the Municipal Solid Waste Stream according to the US Environmental Protection Agency, remain America's most recycled consumer packaging. Recycling rates have marginally increased overall in the last three years. However, we fully agree that more needs to be done to recover containers.

PepsiCo has taken strong steps to increase recycling, including:

- Making sure our beverage containers are specifically designed to be recycled easily in current recycling systems.
- Supporting beverage container recovery financially. Each year PepsiCo and its bottlers spend millions of dollars in support of beverage container recovery.
- Developing a market for recovered containers, including using post consumer recycled aluminum and plastic in our new containers, saving millions of pounds of material each year.
- Working with the National Recycling Coalition and other industry leaders on new programs that promote consumer recycling.

Since the United States' recycling system is not managed or under the auspices of PepsiCo, requiring PepsiCo to report on industry-wide goals is not feasible. Deposit systems, as referenced by the resolution, place extraordinary new costs on our bottlers, retail customers and consumers without having a commensurate impact on the environment.

PepsiCo believes we need a multi-faceted and comprehensive approach to recycling that includes public education, government partnership and enhancement of infrastructure, as well as public policy changes and model programs. These efforts require public-private partnerships, community engagement and on-going input and cooperation from a variety of stakeholders. Our strategy reaffirms our continued long term commitment to increase recycling and our belief in a shared responsibility in supporting the recycling of beverage containers.

**The Board of Directors recommends that shareholders vote AGAINST this resolution.**

## **REPORT ON IMPACTS OF GENETICALLY ENGINEERED PRODUCTS (PROXY ITEM NO.4)**

The Adrian Dominican Sisters, 1257 East Siena Heights Drive, Adrian Michigan 49221-1793, 22046, who own 45 shares of PepsiCo Common Stock, has submitted the following resolution for the reasons stated:

**“RESOLVED:** Shareholders request that an independent committee of the Board review Company policies and procedures for monitoring genetically engineered (GE) products and report (at reasonable cost and omitting proprietary information) to shareholders within six months of the annual meeting on the results of the review, including:

- (i) potential of GE contamination to affect Company product integrity;
- (ii) evidence of independent long-term safety testing of GE crops, organisms, or products thereof;
- (iii) contingency plans for removing GE ingredients from the company's products should circumstances so require

### **Supporting Statement**

Pepsico products contain corn, rice, canola and soy, potentially GE.

### **Safety concerns**

- Analysis of Rat Feeding Study with GE Maize Mon 863 (Archives of Environmental Contamination and Toxicology 3/15/07) concluded, “with the present data it cannot be concluded that GM corn MON863 is a safe product.”
- Research shows huge variation in Bt toxin in GM maize (MON810). Variation [in the Bt toxin] found on the same field on the same day could differ by a factor of as much as 100. This agrees with a study published 4/07. <http://www.gene.ch/genet/2007/May/msg00060.html>
- The Australian GE Pea study, (J. Agri. Food Chem 2005 53, 9023-9030) concluded, “[T]ransgenic expression of non-native proteins in plants may lead to the synthesis of structural variants possessing altered immunogenicity.”
- The report *Safety of Genetically Engineered Foods: Approaches to Assessing Unintended Health Effects* (National Academy of Sciences] 7/2004) states: “there remain sizable gaps in our ability to identify compositional changes that result from genetic modification of organisms intended for food...” (p.15) Post-marketing surveillance has not been used to evaluate any of the GE crops currently on the market (p. 153)
- Producers of GE-seeds are merely encouraged to have voluntary safety consultations with the FDA. The FDA does not issue assurances as to the safety of these products.
- Crops engineered to produce pharmaceuticals/industrial chemicals could pollute the food system. Permits for growing pharma-safflower and pharma-rice were submitted for 2007 planting in Kansas and Washington.

### **Court rulings call into question the adequacy of USDA's oversight of GE crops**

- Judge Breyer in Federal Dist. Court ruled US Department of Agriculture (USDA) failed to adequately assess potential environmental impact of GE-alfalfa (2/13/07)
- US Judge Kenry Kennedy ordered USDA to more thoroughly review applications for field trials. USDA insufficiently reviewed GF-bentgrass, the pollen of which traveled as far as 12 miles from the test plot. (2/5/07)
- Federal District Court ruled that USDA's permitting of drug-producing genetically engineered crops in Hawaii violated the Endangered Species Act and the National Environmental Policy Act. (8/10/06)

## Mistakes

- USDA reported 3/9/07) that testing of the Clearfield 131 (CL131) rice seed had "confirmed the presence of trace levels of genetic material not yet approved for commercialization."
- Unapproved Liberty Link long-grain rice contaminated U.S. rice supplies (Reuters 8/28/05).
- Between 2001-2004, approximately 15,000 hectares (150 square kilometers) in four US states were planted with unapproved Bt10 corn. (New Scientist 3/23/2005)"

**Response:** PepsiCo is dedicated to producing high quality, great tasting food and beverage products in every part of the world. PepsiCo strives to ensure all products meet or exceed stringent safety and quality standards and uses only ingredients that are safe and approved by applicable government and regulatory authorities. Approval of genetically modified foods differs from country to country regarding both use and labeling. For this reason, PepsiCo adheres to all relevant regulatory requirements regarding the use of genetically modified food crops and food ingredients within the countries it operates.

The United States Food and Drug Administration (FDA) has concluded that approved foods developed through biotechnology, such as corn, are as safe for consumption as traditionally developed foods and may be used as ingredients in other foods in the United States. This finding is supported by significant scientific consensus. As a result, along with most other food companies in the United States, PepsiCo has products that may contain genetically engineered ingredients. PepsiCo's use of these genetically engineered ingredients is fully compliant with FDA requirements and we have strong practices and protocols in place to ensure that only ingredients approved by the FDA as safe are used in our products.

To avoid contamination by crops not approved for food ingredients, PepsiCo tests ingredients and works closely with its suppliers and regulatory authorities. To address any potential issues, PepsiCo maintains a robust traceability and retrieval process. We also closely monitor and carefully follow government safety regulations. Our priority is to ensure the safety of our products, including the integrity of all ingredients used in PepsiCo products.

The issue of genetically engineered crops and ingredients has been extensively studied and continues to be researched by scientists. As PepsiCo maintains its own high safety standards and relies on government agencies worldwide to effectively regulate food standards, we do not believe the report requested by the proponents would serve any significant purpose to promote safety.

**The Board of Directors recommends that shareholders vote AGAINST this resolution.**

## **RIGHT TO WATER POLICY (PROXY ITEM NO.5)**

Unitarian Universalist Committee, 689 Massachusetts Avenue, Cambridge, MA 02139, who own 1600 shares of PepsiCo Common Stock, has submitted the following resolution for the reasons stated:

### **"WHEREAS**

Water is the number one ingredient in our company's beverage products, and therefore water quality and quantity is vital for PepsiCo's success.

PepsiCo utilizes natural water resources in the global community to benefit the creation and development of our beverage products.



In 2003, our company's water-use license was revoked in Pudussery, India due to accusations that PepsiCo bottling plants were over-consuming and depleting community groundwater.

Over-consuming and depleting community groundwater is in direct violation of the Human Right to Water that the UN Committee on Economic, Social and Cultural Rights defined as all people's right to safe, sufficient, acceptable, physically accessible and affordable water for personal and domestic use.

PepsiCo conducts business in countries that have constitutional provisions protecting the Human Right to Water, and other countries, such as India and South Africa, which enforce the Human Right to Water through the right to healthy environment and the right to life.

The UN High Commissioner for Human Rights has issued a report on the scope of the human rights obligations related to equitable access to safe drinking water and sanitation, and her comments place responsibility for ensuring this level of access is not only on governments, but on private water providers and bottlers.

We believe that global corporations operating without strong human rights and environmental policies face serious risks to their reputation and share value if they are seen to be responsible for, or complicit in, human rights violations, specifically the violation or erosion of the human right to water.

We believe that significant commercial advantages may accrue to our company by adopting a comprehensive Human Right to Water policy including: enhanced corporate reputation, improved employee recruitment and retention, improved community and stakeholder relations, and reduced risk of adverse publicity, consumer boycotts, divestment campaigns, and lawsuits;

**BE IT RESOLVED** that the shareholders request the Board of Directors to create a comprehensive policy articulating our company's respect for and commitment to the Human Right to Water.

## **SUPPORTING STATEMENT**

Proponents believe the policy should address potability, volume, physical accessibility and affordability of water. In defining "human rights," proponents suggest that the Board could use the Universal Declaration of Human Rights as nonbinding benchmark or reference document."

**Response:** PepsiCo recognizes the importance of water to our business, the communities in which we operate and the citizens of the world. PepsiCo has had a long history of strong conservation programs within our operations with identified goals to reduce consumption per unit of production. In addition, we support programs to increase and improve water supply quantity and quality in the communities where we operate, working closely with local governments and citizen organizations. We are also partnering with major organizations to improve water access and management in water-stressed regions. Recently, PepsiCo and the PepsiCo Foundation partnered on two major initiatives focused on clean water initiatives in Africa, Asia and South America. The PepsiCo Foundation's \$6 million multi-year commitment to the Earth Institute and PepsiCo's \$2.5 million commitment to H2O Africa will focus on improving water access, water productivity and improving sanitary conditions. As a signatory of the United Nations CEO Water Mandate, PepsiCo is working globally to help address water issues.

Our activities and commitments demonstrate our support for the United Nations World Health Organization (WHO) human right to water goals. Instead of developing a separate and unenforceable PepsiCo policy to guarantee a Human Right to Water as requested by the proponents, we feel it would be much more effective to continue to concentrate on working on important global public-private partnerships that further access to sanitary water.

**The Board of Directors recommends that shareholders vote AGAINST this resolution.**

## **GLOBAL WARMING REPORT (PROXY ITEM NO.6)**

Action Fund Management, LLC, 12309 Briarbush Lane, Potomac, MD 20854, who own 1425 shares of PepsiCo Common Stock, has submitted the following resolution for the reasons stated:

"Resolved: The shareholders request that the Board of Directors prepare by October 2008, at reasonable expense and omitting proprietary information, a Global Warming Report. The report may describe and discuss how action taken to date by PepsiCo to reduce its impact on global climate change has affected global climate in terms of any changes in mean global temperature and any undesirable climatic and weather-related events and disasters avoided.

Supporting Statement:

PepsiCo says on its web site that it supports action on global warming. PepsiCo is a member of the U.S. Climate Action Partnership (USCAP), a group that lobbies for global warming regulation.

But scientific data show that atmospheric levels of carbon dioxide, the greenhouse gas of primary concern in global warming, do not drive global temperature. See e.g., <http://youtube.com/watch?v=XDI2NVTYRXU>.

Even assuming for the sake of argument that atmospheric carbon dioxide levels affect global temperatures, the U.S. Environmental Protection Agency recently projected that U.S. regulation of manmade greenhouse gas emissions would have a trivial impact on atmospheric concentrations of carbon dioxide over the next 90 years. See e.g., <http://www.epa.gov/climatechange/PepsiConloads/s1766analysispart1.pdf> and <http://www.junkscience.com/ByTheJunkman/20071004.html>.

So U.S. greenhouse gas regulation is not likely to discernibly affect global climate in the foreseeable future.

Global warming regulation is expected to harm the economy. The Congressional Budget Office, U.S. Department of Energy and prominent economists such as Alan Greenspan, Arthur Laffer and Greg Mankiw all say that cap-and-trade – a type of greenhouse gas regulation promoted by USCAP – would reduce economic growth. See e.g., [http://www.junkscience.com/failure to disclose.pdf](http://www.junkscience.com/failure%20to%20disclose.pdf).

Shareholders want to know how PepsiCo's actions relating to global warming may be improving global climate."

**Response:** PepsiCo recognizes worldwide scientific and policy concerns regarding global climate challenges. As such, we have participated in discussions with other corporations and governments, as well as non-governmental organizations, seeking to better understand trends and develop appropriate actions. We have actively pursued internal efforts to reduce our environmental impact and have set goals to reduce water and energy consumption. PepsiCo believes inactivity on this issue will result in greater costs. PepsiCo is actively engaged in reducing its environmental footprint which is both good for the world and good for business.

**The Board of Directors recommends that shareholders vote AGAINST this resolution.**

## **ADVISORY VOTE ON COMPENSATION (PROXY ITEM NO.7)**

TIAA-CREF, 730 Third Avenue, New York, NY 10017, who own 18,210,633 shares of the Company's common stock, has submitted the following:

**“RESOLVED**, that the shareholders of the PepsiCo (“the Company”) recommend that the board of directors adopt a policy requiring that the proxy statement for each annual meeting contain a proposal, submitted by and supported by Company management, seeking an advisory vote of shareholders to ratify and approve the board Compensation Committee Report and the executive compensation policies and practices set forth in the Company’s Compensation Discussion and Analysis.

### ***Supporting Statement***

The recent amendments to the Securities and Exchange Commission’s rules governing the disclosure of executive compensation are intended to provide shareholders with clearer and more complete information about the Company’s compensation policies, goals, metrics, rationale and cost. The new rules should enable shareholders to make an informed judgment about the appropriateness of the company’s compensation program. We believe that a non-binding, advisory vote is an effective way for shareholders to advise the company’s board and management whether the company’s policies and decisions on compensation have been adequately explained and whether they are in the best interest of shareholders.

An advisory vote would inform management and the board of shareholder views without involving shareholders in compensation decisions. We believe that the results of an advisory vote would encourage independent thinking by the board, simulate healthy debate within the Company and promote substantive dialogue about compensation practices between the Company and its investors.

We urge you to vote “FOR” this proposal.”

**Response:** We believe that PepsiCo’s executive compensation programs, described in the Compensation Discussion and Analysis, are responsibly designed and administered by the Compensation Committee with strict corporate governance standards to support PepsiCo’s pay for performance philosophy. We also believe that our shareholders possess effective tools to voice their support for, or concerns with, executive compensation at PepsiCo. In contrast, we do not believe that a shareholder advisory vote would convey meaningful information or specific concerns that the Company and the Compensation Committee could address.

We believe adoption of an advisory vote resolution is unnecessary because shareholders already have many avenues at their disposal to communicate directly with the Board to express their views on PepsiCo’s executive compensation policies and decisions:

- **Management Dialogue with Shareholders:** PepsiCo’s management routinely speaks with investors on key issues, including executive compensation, to ensure that we are proactive in understanding and addressing emerging governance trends and shareholder issues. Management reports back to the Compensation Committee on compensation-related matters.
- **Shareholder Access to the Board of Directors:** Our corporate web site, [www.pepsico.com](http://www.pepsico.com), includes a section on how to contact the Board, a specific Committee of the Board or an individual member of the Board by telephone, mail and online. Our Board and Committees welcome shareholder comments on our executive compensation and benefits policies and programs.
- **Shareholder Approval of Incentive Plans:** Equity awards granted to all employees are provided under our shareholder-approved 2007 Long-Term Incentive Plan and cash incentive awards to senior officers are provided under our shareholder-approved 2004 Executive Incentive Compensation Plan. The parameters that shareholders place on these plans exert significant influence on how PepsiCo designs and administers its executive compensation and benefits programs.



- **Annual Vote for Directors:** Shareholders can voice their opinion on executive compensation and benefits practices by voting for or against directors on the Compensation Committee.

Moreover, as a practical matter, an advisory vote would not provide the Company or the Compensation Committee, which is comprised solely of independent directors, with any meaningful insight into specific shareholder concerns regarding executive compensation.

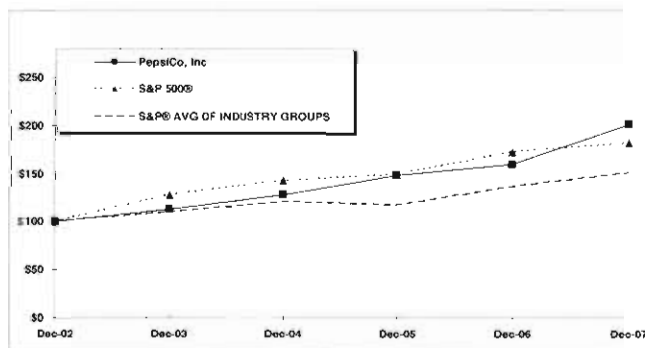
We also believe adoption of an advisory vote resolution is unnecessary because the Compensation Committee applies strict governance standards in administering executive compensation and benefit programs. PepsiCo's compensation and benefits programs for executive officers operate with many strong governance features including:

- **Performance-based Restricted Stock Units:** Senior executives receive annual grants of performance-based RSUs that only vest if PepsiCo achieves pre-defined earnings targets over a three-year performance period.
- **Financial Performance Targets for Incentive Compensation:** Financial performance targets for bonus awards and performance-based RSUs have never been adjusted or "reset," and management does not have the authority to do so.
- **Stock Ownership:** To reinforce our ownership philosophy, executive officers are required to own shares of PepsiCo stock equal to a specified multiple of their salary under the Board-approved stock ownership guidelines.
- **Exercise and Hold Policy:** To ensure our executive officers exhibit a strong commitment to PepsiCo share ownership, the Board implemented a policy that limits annual option exercises for cash to 20% of the pre-tax gains on all vested outstanding options on the annual equity grant date for that year. Any proceeds in excess of this 20% limit must be held in PepsiCo shares for at least one year after the date of exercise.
- **Clawback Provision:** If PepsiCo determines that an employee violated PepsiCo's Worldwide Code of Conduct, violated our non-compete, non-solicitation and non-disclosure policies, or engaged in gross misconduct, their outstanding equity awards can be cancelled. In addition, our plans permit PepsiCo to recover all gains from exercised stock options, vested RSUs or gains earned in the Company's executive deferral program within the 12 months preceding the violation.
- **External Compensation Committee Consultant:** In 2007, the Committee engaged Frederic Cook of Frederic W. Cook & Co. to serve as its external consultant. Frederic W. Cook & Co. does not provide and will not provide any services to PepsiCo besides executive compensation consulting to the Compensation Committee.

Finally, as described in the Compensation Discussion and Analysis on page 15, PepsiCo's compensation programs are highly incentive-based and have been designed to motivate superior Company performance and to align executive rewards with shareholder interests. As a result, our 2007 results continued to demonstrate our strong financial returns for our shareholders. PepsiCo's cumulative total shareholder return demonstrates our track record of long-term growth. Shareholders purchasing PepsiCo stock at the end of 2002 and holding it to the end of 2007 received a higher cumulative returns than the returns of the S&P 500 and our industry groups.

### Cumulative Total Shareholder Return

Return on PepsiCo stock investment (including dividends), the S&P 500 and the S&P Average of Industry Groups\*



\* The S&P Average of Industry Groups is derived by weighting the returns of two applicable S&P Industry Groups (Non-Alcoholic Beverages and Food) by PepsiCo's sales in its beverage and foods businesses. The return on PepsiCo stock investment is calculated through December 28, 2007, the last trading day prior to the end of PepsiCo's fiscal year. The return for the S&P 500 and the S&P Average indices is calculated through December 31, 2007.

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
PepsiCo, Inc.	\$100	\$113	\$129	\$149	\$161	\$202
S&P 500®	\$100	\$129	\$143	\$150	\$173	\$183
S&P® Avg of Industry Groups	\$100	\$110	\$121	\$118	\$137	\$152

**The Board of Directors recommends that shareholders vote AGAINST this resolution.**

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## **OTHER MATTERS**

The Board of Directors knows of no other matters to be brought before the Annual Meeting.

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## **2009 SHAREHOLDERS' PROPOSALS**

PepsiCo welcomes comments or suggestions from its shareholders. If a shareholder wants to have a proposal formally considered at the 2009 Annual Meeting, and included in the Proxy Statement for that Meeting, we must receive the proposal in writing on or before November 26, 2008. In addition, if a shareholder proposal is not received by us on or before February 1, 2009, under PepsiCo's By-Laws it will not be considered or voted on at the Annual Meeting.

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## **GENERAL**

PepsiCo will pay the costs relating to this Proxy Statement, the proxy and the Annual Meeting.

In addition to the solicitation of proxies by mail and electronically, PepsiCo intends to ask brokers and bank nominees to solicit proxies from their principals and will pay the brokers and bank nominees their expenses for the solicitation. Employees of PepsiCo may also solicit proxies. They will not receive any additional pay for the solicitation.

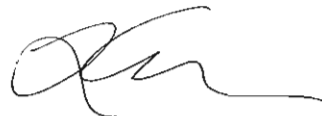
To be sure that we have the necessary quorum to hold the Annual Meeting, PepsiCo has hired the firm of Georgeson Shareholder Communications Inc. to help in soliciting proxies by mail, telephone and personal interview for fees estimated at approximately \$21,000.

The Annual Report to Shareholders for 2007, including financial statements, was delivered with this Proxy Statement or was previously delivered to shareholders. To reduce postage costs, we sent materials at bulk mail rates. If you have not received the Annual Report by the time you receive your Proxy Statement, please contact PepsiCo's Manager of Shareholder Relations, at PepsiCo, Inc., 700 Anderson Hill Road, Purchase, NY 10577 or (914) 253-3055. The Annual Report can also be found on our website at [www.pepsico.com](http://www.pepsico.com) by clicking on "Investors – Investor Overview."

A copy of PepsiCo's Annual Report on Form 10-K for the fiscal year ended December 29, 2007 (without exhibits) will be sent to any shareholder without charge by contacting the Company at the address or phone number listed above. You also may obtain our Annual Report on Form 10-K over the Internet at the Securities and Exchange Commission's website, [www.sec.gov](http://www.sec.gov), or at our website, [www.pepsico.com](http://www.pepsico.com).

Please vote your shares promptly through any of the means described on the proxy card.

By order of the Board of Directors,



Larry D. Thompson  
Secretary



**CORPORATE GOVERNANCE GUIDELINES****As of November 16, 2007**

The Board of Directors (the "Board") of PepsiCo, Inc. (the "Corporation"), acting on the recommendation of its Nominating and Corporate Governance Committee, has developed and adopted certain corporate governance principles (the "Guidelines") establishing a common set of expectations to assist the Board and its Committees in performing their duties in compliance with applicable requirements. In recognition of the continuing discussions about corporate governance, the Board will review and, if appropriate, revise these Guidelines from time to time.

**A. *Director Responsibilities***

1. Represent the interests of the Corporation's shareholders in maintaining and enhancing the success of the Corporation's business, including optimizing long-term returns to increase shareholder value.
2. Selection and evaluation of a well-qualified Chief Executive Officer ("CEO") of high integrity, and approval of other members of the senior management team.
3. Oversee and interact with senior management with respect to key aspects of the business including strategic planning, management development and succession, operating performance, and shareholder returns.
4. Provide general advice and counsel to the Corporation's CEO and senior executives.
5. Adopt and oversee compliance with the Corporation's Worldwide Code of Conduct. Promptly disclose any waivers of the Code of Conduct for Directors or executive officers.
6. Hold regularly scheduled executive sessions of independent directors. Designate and publicly disclose the name of a Presiding Director who will preside at such meetings. Formally evaluate the performance of the CEO and senior management each year in executive sessions. The role of the Presiding Director shall be to: preside at all meetings of the Board at which the Chairman is not present, including the executive sessions of the independent directors referred to above; serve as a liaison between the Chairman and the non-management directors as necessary; and call meetings of non-employee directors when necessary and appropriate.
7. Regular attendance at Board meetings is mandatory. Meeting materials should be reviewed in advance.
8. *Duty of Care:* In discharging the duties of a Director, including duties as a Committee member, North Carolina law requires that a Director shall act: (1) in good faith; (2) with care an ordinary prudent person in a like position would exercise under similar circumstances and (3) in a manner he or she believes to be in the best interests of the Corporation.

**B. *Director Qualification Standards***

1. The Nominating and Corporate Governance Committee, with the input of the CEO, is responsible for recommending to the Board (1) nominees for Board membership to fill vacancies or newly created positions and (2) the persons to be nominated by the Board for election at the Corporation's Annual Meeting of Shareholders.
2. The Nominating and Corporate Governance Committee does not solicit Director nominations, but will consider recommendations sent to the Secretary of the Corporation at 700 Anderson Hill Road, Purchase, New York 10577.

3. In connection with the selection and nomination process, the Nominating and Corporate Governance Committee shall review the desired experience, mix of skills and other qualities to assure appropriate Board composition, taking into account the current Board members and the specific needs of the Corporation and the Board. The Board will generally look for individuals who have displayed high ethical standards, integrity, and sound business judgment. This process is designed to ensure that the Board includes members with diverse backgrounds, skills and experience, including appropriate financial and other expertise relevant to the business of the Corporation.
4. Independent directors must comprise a majority of the Board.
5. An independent director of the Corporation is a director who:
  - (a) is not and has not been an employee, and does not have an immediate family member<sup>1</sup> who is or has been an executive officer<sup>2</sup>, of the Corporation, or any of its consolidated subsidiaries, during the last three years;
  - (b) has not received, and does not have an immediate family member who has received, more than \$100,000 in direct compensation from the Corporation, or any of its consolidated subsidiaries, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) during any twelve month period within the last three years;
  - (c) (i) is not, and does not have an immediate family member that is, a current partner of a firm that is the Corporation's, or any of its consolidated subsidiaries', internal or external auditor; (ii) is not a current employee of such external audit firm; (iii) does not have an immediate family member who is a current employee of such external audit firm who participates in such firm's audit, assurance or tax compliance (but not tax planning) practice; and (iv) was not, and does not have an immediate family member that was, within the last three years (but is no longer) a partner or employee of such external audit firm who personally worked on the Corporation's, or any of its consolidated subsidiaries', audit within that time;
  - (d) is not and has not been, and does not have an immediate family member who is or has been, within the last three years, employed as an executive officer of another company where any of the Corporation's, or any of its consolidated subsidiaries', present executive officers at the same time serves or served on such other company's compensation committee;
  - (e) is not a current employee of, and does not have an immediate family member who is a current executive officer of, another company that has made payments to, or has received payments from, the Corporation, or any of its consolidated subsidiaries, for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of the consolidated gross revenues of such other company for its last completed fiscal year; and
  - (f) has no other material relationship with the Corporation, or any of its consolidated subsidiaries, either directly or as a partner, shareholder or officer of an organization that has a material relationship with the Corporation, or any of its consolidated subsidiaries.

<sup>1</sup> An "immediate family member" is defined to include a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who shares such person's home. In considering a director's independence, the Corporation need not consider individuals who are no longer immediate family members as a result of legal separation or divorce, or those who have died or become incapacitated.

<sup>2</sup> An "executive officer" means one of the Section 16 officers designated by a company.

In making a determination regarding a proposed director's independence, the Board shall consider all relevant facts and circumstances, including the director's commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, and such other criteria as the Board may determine from time to time. If a proposed director serves as an executive officer, director or trustee of a tax exempt organization, such relationship will not be considered to be a material relationship that would impair a director's independence if contributions from the Corporation, or any of its consolidated subsidiaries, to such tax exempt organization in any of the last three fiscal years are less than the greater of (i) \$1 million or (ii) 2% of the consolidated gross revenues of such tax exempt organization for its last completed fiscal year.

6. In addition to satisfying all of the independence criteria set forth in paragraph 4 of this Section, all members of the Audit Committee must also meet the following requirements:
  - (a) Director's fees are the only compensation that members of the Audit Committee may receive from the Corporation or any of its consolidated subsidiaries. Audit Committee members may not receive consulting, advisory or other compensatory fees from the Corporation or any of its consolidated subsidiaries (other than in his or her capacity as a member of the Audit Committee, the Board of Directors, or any other Committee of the Board).
  - (b) No member of the Audit Committee may be an "affiliated person" of the Corporation, or any of its consolidated subsidiaries, as such term is defined by the Securities and Exchange Commission.
7. Directors must retire at the age of 72, effective upon the expiration of their annual term at the next Annual Meeting of Shareholders.
8. The number of boards on which a Director may sit may be reviewed on a case-by-case basis by the Nominating and Corporate Governance Committee. Prior to accepting any position on the Board of Directors of any non-profit or for-profit organization, the Director shall notify the office of Corporate Secretary. The number of audit committees on which the Corporation's audit committee members may sit concurrently shall be reviewed annually by the Nominating and Corporate Governance Committee and the Board.
9. The Board has not established term limits for Directors. Although term limits can promote the inclusion on the Board of people with diverse perspectives, the process described in paragraph 3 of this Section can achieve the same result. Moreover, term limits have the disadvantage of causing the Corporation to lose the contributions of Directors who have been able to develop over a period of time, increasing insight into the Corporation and its operations, thereby increasing their contributions to the Corporation.
10. A Director shall offer, in writing, to resign if there is any significant change in his or her personal circumstances, including a fundamental change in his or her job responsibilities. The Chairman of the Nominating and Corporate Governance Committee may recommend, to the full Board, acceptance or rejection of such an offer after consultation with the Committee members and the Chairman of the Board.

### **C. Voting for Directors**

1. Any nominee for Director in an uncontested election (i.e., an election where the number of nominees is not greater than the number of Directors to be elected) who receives a greater number of votes "against" his or her election than votes "for" such election shall, promptly following certification of the shareholder vote, offer his or her resignation to the Board unless otherwise determined by the Board in accordance with the procedures set forth below. The resignation offer shall be in writing and shall be an irrevocable resignation offer pending acceptance or rejection as provided herein.

2. The Nominating and Corporate Governance Committee shall consider the resignation offer and make a recommendation to the Board. The independent members of the Board will act on the Nominating and Corporate Governance Committee's recommendation within 90 days following certification of the shareholder vote.
3. In deciding the action to be taken with respect to any such resignation offer, the independent members of the Board shall limit their consideration to determining what is in the best interests of the Corporation and its shareholders. In this regard, the Board should consider all factors deemed relevant, including but not limited to: (i) any stated reasons why shareholders voted against such Director, (ii) any alternatives for curing the underlying cause of the "against" votes, (iii) the Director's tenure, (iv) the Director's qualifications, (v) the Director's past and expected future contributions to the Corporation, and (vi) the overall composition of the Board, including whether accepting the resignation offer would cause the Corporation to be in violation of its constituent documents or fail to meet any applicable regulatory or contractual requirements. The Board's actions with respect to any such resignation offer may include: (i) accepting the resignation offer, (ii) deferring acceptance of the resignation offer until a replacement Director with certain necessary qualifications held by the subject Director (e.g., Audit Committee financial expertise) can be identified and elected to the Board, (iii) maintaining the Director but addressing what the independent members of the Board believe to be the underlying cause of the "against" votes, (iv) resolving that the Director will not be re-nominated in the future for election, or (v) rejecting the resignation offer. An accepted resignation offer will become effective immediately upon acceptance or upon such other time as determined by the independent members of the Board consistent with this policy.
4. Following the determination by the independent members of the Board, the Corporation shall promptly disclose publicly in a document furnished or filed with the Securities and Exchange Commission the decision of whether or not to accept the resignation offer. The disclosure shall also include an explanation of how the decision was reached, including, if applicable, the reasons for rejecting the resignation offer.
5. A Director who is required to offer to resign in accordance with this Section C shall not be present during the deliberations or voting by the Nominating and Corporate Governance Committee or the Board as to whether to recommend or accept his or her resignation offer or an offer by any other Director to tender his or her resignation in accordance with this Section C. However, if enough members of the Nominating and Corporate Governance Committee do not receive more "for" votes than "against" votes in the same uncontested election such that a quorum of the Nominating and Corporate Governance Committee cannot be attained, then the other independent Directors who received a greater number of "for" votes than "against" votes in that election will be asked to consider and decide whether to accept the resignation offers of the affected Directors. If only three or fewer independent Directors did not receive more "for" votes than "against" votes in the same uncontested election, then all independent Directors may participate in any discussions or actions with respect to accepting or turning down the resignation offers (except that no Director will vote to accept or turn down his or her own resignation offer). Any affected Director will be afforded the opportunity to provide any information or statement that he or she deems relevant.

**D. Board Committees**

1. The Board shall at all times have a Nominating and Corporate Governance Committee, an Audit Committee and a Compensation Committee, each comprised solely of independent directors.
2. The Board shall evaluate and determine the circumstances under which to form new Committees.



3. The Nominating and Corporate Governance Committee shall annually review succession plans for the members of the Board, the members of the Committees of the Board, and the Chair of the Committees of the Board.

**E. *Director Compensation***

1. Non-employee directors and committee chairs shall receive reasonable compensation for their services, as may be determined from time to time by the Board upon recommendation of the Nominating and Corporate Governance Committee. Compensation for non-employee directors and committee chairs shall be consistent with the market practices of other similarly situated companies but shall not be at a level or in a form that would call into question the Board's objectivity. The Nominating and Corporate Governance Committee of the Board shall annually review and report to the Board with respect to director compensation and benefits.
2. Directors who are employees receive no additional pay for serving as Directors.
3. Directors who are members of the Audit Committee may receive no compensation from the Corporation other than the fees they receive for serving as Directors.

**F. *Director Access to Management and Independent Advisors***

1. The Board is expected to be highly interactive with senior management. Directors are granted access to the name, location, and phone number of all employees of the Corporation.
2. It is Board policy that executive officers and other members of senior management who report directly to the CEO be present at Board meetings at the invitation of the Board. The Board encourages such executive officers and senior management to make presentations, or to include in discussions at Board meetings managers and other employees who (1) can provide insight into the matters being discussed because of their functional expertise and/or personal involvement in such matters and/or (2) are individuals with high potential whom such executive officers and senior management believe the Directors should have the opportunity to meet and evaluate.
3. Directors are authorized to consult with independent advisors, as is necessary and appropriate, without consulting management.

**G. *Director Orientation and Continuing Education***

1. The Board shall implement and maintain an orientation program for newly elected directors.
2. Directors are required to continue educating themselves with respect to international markets, accounting and finance, leadership, crisis response, industry practices, general management, and strategic planning.

**H. *Management Succession and CEO Compensation***

1. The CEO shall provide an annual report to the Board assessing senior managers and their potential to succeed him or her, and such report shall be developed in consultation with the Chairman of the Compensation Committee and include plans in the event of an emergency or retirement of the CEO. The report shall also contain the CEO's recommendation as to his or her successor.
2. The Board has the primary responsibility for plans for succession to the position of Chief Executive Officer. The Compensation Committee oversees preparation of succession plan presentations to the Board. The Committee Chairman works with the CEO in the preparation of the succession plan presentations. The Committee undertakes such follow-up steps with respect to succession planning as may be delegated by the Board from time to time.

3. The Compensation Committee is responsible for making recommendations to the Board concerning annual and long-term performance goals for the CEO and for evaluating his or her performance against such goals.

***I. Annual Performance Evaluation of the Board***

1. The Board and its Committees will conduct a self-evaluation at least annually to determine whether it and its Committees are functioning effectively.
2. The Board will also review the Nominating and Corporate Governance Committee's periodic recommendations concerning the performance and effectiveness of the Board and its Committees.

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## **Mixed Sources**

Product group from well-managed  
forests, controlled sources and  
recycled wood or fiber

[www.fsc.org](http://www.fsc.org) Cert no. SCS-COC-00648  
© 1996 Forest Stewardship Council

*"Your descendants shall gather your fruits." — Virgil*

The second component of purpose is **environmental sustainability**. Companies — like individuals — must act as custodians of our natural resources. As it is for each individual, it is a matter of moral urgency that companies do what they can. But it is a matter of business urgency too. Today, recruiting the best people is difficult without a good record on the environment — to say nothing of the direct link between resource conservation and business productivity.

Our stated goal is to further reduce our water and energy usage and move towards the ideal of "net neutral." By 2015, corporate-wide, we will reduce per-unit water consumption by 20%, electricity consumption by 20% and manufacturing fuel consumption by 25% — as compared with our consumption metrics in 2006. We evaluate each project against return on investment hurdles, but also consider intangible benefits and longer-term implications. Here are some of the ways we continued to make real progress in 2007:

- Incorporating consideration of environmental sustainability issues and opportunities as part of every capital expenditure evaluation for projects greater than \$5 million.
- Using new technologies to save energy, and working out ways to communicate our conservation efforts through brand marketing activities.
- Offsetting the total purchased electricity used by all PepsiCo U.S.-based facilities, by purchasing renewable energy certificates.

These initiatives pay. Since 1999, Frito-Lay North America has reduced per-pound water use by more than 38%, manufacturing fuels by more than 27%, and electricity by more than 21%, thereby saving \$55 million in energy and utility costs compared with 1999.

As a result of these and many other actions, detailed later in this report, we earned inclusion in the Dow Jones Sustainability Index (DJSI) in both their North America and World Indices.

- Reusing water from processing, working with local communities to provide access to clean water, and supporting local farmers to deliver "more crop per drop."

## 2007 Environmental Honors

- PepsiCo was added to **DJSI World Index** and maintained its position on **DJSI North America Index**.
- The U.S. Environmental Protection Agency (EPA) recognized PepsiCo as **Green Power Partner of the Year** and **Energy Star Partner of the Year**.
- *Working Mother* magazine named PepsiCo to its **Best Green Companies** for America's Children List.
- The Cause Marketing Forum awarded Sam's Club/Aquafina's "Return the Warmth" program with the top environmental honor, the **Halo Award**.
- *CRO* magazine recognized PepsiCo among the **2007 100 Best Corporate Citizens** in the United States.
- PepsiCo was ranked **#10 in the LOHAS (Lifestyles of Health and Sustainability) Index** for its corporate social responsibility program and communications.
- The China Association of Enterprises with Foreign Investment (CAEFI) and *WTO Tribune Magazine* honored PepsiCo Investment (China) Ltd. with the **Corporate Social Responsibility Outstanding Contribution Award**.
- Frito-Lay's Jonesboro facility received the **EPA Performance Track Distinction**, which recognizes facilities that set goals for continuous improvements in environmental performance.
- The U.S. Green Building Council Leadership in Energy and Environmental Design (LEED) program awarded **LEED Gold Status** to the Gatorade Blue Ridge facility in Wytheville, Virginia and Gatorade Tolleson facility in Arizona.
- The Thailand Government Department of Energy gave PepsiCo's Thailand Lamphun plant an **Excellent Performance in Energy Conservation Award**.
- Frito-Lay was recognized in the **EPA's 2007 Water Efficiency Leader** awards in recognition for exceptional commitment to water efficiency.
- Seven PepsiCo China bottling plants were recognized as **Best Water-Saving Companies** in China's beverage industry by the China Beverage Industry Association.





## 2007 Talent Honors

- Corporate Research Foundation International, Holland's professional publication and ranking organization, named PepsiCo among the **Best Companies to Work for in Spain**.
- *Latina STYLE* named PepsiCo **Company of the Year**.
- University students in China named PepsiCo one of the **Best Graduate Employers in China** for the second year in a row.
- Catalyst honored PepsiCo with the **2007 Catalyst Award** for its **Woman of Color Multicultural Alliance**.
- China Rights Forum and China Business News Group named PepsiCo **2007 Outstanding Employer of China** in the Shanghai Region.
- *Business Ethics* magazine named PepsiCo to the **100 Best Corporate Citizens** list.
- *DiversityBusiness* named PepsiCo as one of **America's Top Organizations for Multicultural Business Opportunities**.
- *Hispanic Business* named PepsiCo among its **Top 60 Diversity Elite**.
- PepsiCo was named among the **Most Influential Multinationals in China** for the third consecutive year.
- The Human Rights Campaign named PepsiCo as one of the **Best Places to Work for Gay/Lesbian/Bisexual/Transgender (GLBT) Equality**.
- The AIDS Responsibility Project (ARP) presented PepsiCo with the **International Corporate Courage Award**.
- The Women's Foodservice Forum (WFF) honored PepsiCo with the inaugural **Jackie B. Trujillo SOAR Award**.
- *Working Mother* magazine named PepsiCo one of the top five among the **Top 50 Best Companies for Multicultural Women**.
- *Latin Business* magazine named PepsiCo to its **Corporate Diversity Honor Roll**.
- *Essence* magazine named PepsiCo one of the **25 Best Companies for Black Women**.
- The Chicagoland Chamber of Commerce awarded PepsiCo and EnAble with the **Innovation Award**.
- *The Times* recognized PepsiCo U.K. & Ireland as a place **Where Women Want to Work**.
- *Black Enterprise* magazine named PepsiCo as one of the **40 Best Companies for Diversity**.

All of this activity is crucial in its own right and crucial in fostering the third part of our purpose aims: Cherishing our employees, what we call **talent sustainability**.

*"The way you see people is the way you treat them, and the way you treat them is what they become." — Johann von Goethe*

PepsiCo is blessed with an extraordinary group of people. Talent sustainability is the process of treating them well and priming them to fulfill their dreams. So it is at PepsiCo. We pursue diversity to reflect the consumers we serve. We create an inclusive environment and encourage associates to bring their whole selves to work. We provide excellent benefits and training opportunities. Our associates respond accordingly and deliver the outstanding results we present to you here. They are great corporate citizens, in addition to being good parents, caregivers, coaches, and community leaders. They combine a wonderful can-do spirit with an earnest must-do sense of responsibility. Gathered together each day in offices, manufacturing facilities and distribution centers around the world, they make PepsiCo a company with a soul.

Let me share some notable examples of the ways we continued to advance our talent sustainability goals in 2007:

- Increasing female and minority representation in the management ranks.
- Engaging employees in health and wellness programs.
- Encouraging employees to participate in community service activities.
- Creating rewarding job opportunities for people with different abilities.

Again, these and other initiatives are detailed later in this report, and they helped PepsiCo earn accolades from several prominent organizations including

Catalyst, *DiversityInc*, *Black Enterprise* magazine, *Latina STYLE* magazine, *Fortune*, and others. We are proud to be recognized internationally as "a great company" for which to work.

Doing better by doing better — that's the ambition Performance with Purpose has sparked in us. It's always been part of our DNA and our operating mind set. In 2007, it boosted the engagement and emotional commitment of associates across the company.

All over the world, I have met associates who have embraced Performance with Purpose. New associates understand it instinctively and expect this sort of holistic approach from their employer. Veteran employees have embraced it with no less passion. For many it has rekindled their creative spirit and renewed their commitment to the company.

*Together, we are all building on the platform of human, environment and talent sustainability, while continuing to deliver great financial results.*

We can do that because all associates can see that performance and purpose go hand-in-hand. They see that what is good for society is also good for business. They see that we are walking the talk: measuring and tracking the things that we say are important. That is a great source of motivation across the company.

We enter the new year with great results behind us and great prospects to come. I look forward to 2008, because I know we are a strong company, a responsible company, a good company.

*Indra K. Nooyi*

Indra K. Nooyi  
Chairman and Chief Executive Officer





## A Perspective from Our Chairman and CEO

The questions below reflect those often asked by our shareholders about key areas of our businesses. The answers come from our Chairman and CEO, Indra Nooyi.

**Q: In November 2007, PepsiCo announced a new organizational structure. What drove this decision, and how will the restructuring impact financial results?**

**A:** Given our robust growth in recent years, we felt it was time to manage the company as three units instead of two — both to allow us to sustain our growth rate and also to develop global senior leadership talent for PepsiCo's future. We therefore created three operating business units: PepsiCo Americas Foods (PAF), PepsiCo Americas Beverages (PAB), and PepsiCo International (PI).

We are confident this organizational structure will help us deliver strong top-line performance and profit growth for the following reasons:

- Each sector has significant scale and growth potential, operates across multiple geographies, and is comprised of both developed and developing markets;
- This facilitates our ability to leverage both capabilities and innovation between our international and North American businesses;
- With each sector being of significant scale, more executives will have the opportunity to run large operating businesses and gain global operating experience; and
- It enables us to extend the competitive advantages of our very successful Power of One initiatives by making them increasingly global.

Finally, investors will receive more granular international performance data, as we will report volume, revenue and operating profit for six PepsiCo segments, versus four in the previous structure. Results under the new structure for 2005, 2006, and 2007 can be found on our company website [www.pepsico.com](http://www.pepsico.com), under the "Investors" tab.

**Q: How is PepsiCo reacting to the changing global economy, particularly the slowing U.S. economy?**

**A:** It is likely the world economies outside the emerging countries will slow in 2008 — although our businesses have generally proved pretty resilient in past economic downturns. It's also clear that inflation in commodity costs has accelerated, particularly as it relates to grains and energy. We will be utilizing all of the tools at our disposal to address rising inflation. From a productivity standpoint, we're accelerating efforts across the entire business system: product formulations, ingredient sourcing, trade efficiencies, manufacturing, go-to-market and administrative expenses. In addition, we will be looking to gain effective pricing, both through innovative new products as well as through a judicious combination of mix management, product weight-outs, and absolute pricing. As always, our decisions are grounded in the consumer, customer and competitive environments in each market.

Underlying these efforts are the important structural advantages we have across the world. Our brands have highly loyal and engaged consumers; they are affordable treats and healthy eats; and the strength of our go-to-market systems makes them readily available to consumers.

And as a team, we remain committed to managing for the long term, executing with excellence and consistently delivering our annual targets.





Q: How are you responding to the category shift in consumer beverage consumption between carbonated soft drinks (CSDs) and non-carbonated beverages (NCB), particularly in the United States?

A: We know that consumers have changing desires, and we are continually transforming our beverage portfolio in response to these changes.

Consumers respond to innovation in the CSD category, and so we continue to invigorate our flagship CSDs: Pepsi, Diet Pepsi and Mountain Dew. Last year, we launched Diet Pepsi Max in the United States, a no-calorie beverage with the energy boost of added caffeine and ginseng; and we launched Mountain Dew Game Fuel, created in conjunction with Microsoft's Xbox 360 exclusive title, Halo 3, marking the first time a soft drink has been created specifically for video gamers.

We have also introduced new carbonated juice drinks like Izze, an all-natural sparkling fruit juice brand that we acquired in 2006; and we have a growing energy drink business with Amp Energy, SoBe Adrenaline Rush and No Fear.

In non-carbonated beverages, we have made great progress in the nutrition category with the acquisition of Naked Juice and our recent introduction of Tropicana Pure.

We have U.S. category leadership positions with many of our NCB brands, including Aquafina, the number-one national PET water brand; Lipton, the number-one ready-to-drink tea and the number-one ready-to-drink coffee with Starbucks Frappuccino.

PepsiCo defines the performance category with our number-one sports drink Gatorade; and with our recent launch of G2 we have added a low-calorie, off-the-field hydration answer for athletes. Rounding out the NCB portfolio are great enhanced water brands including our low-calorie reformulated SoBe Life Water and Propel Fitness Waters.

Across the entire spectrum of categories, our continued focus on R&D and innovation as well as consumer insights enables us to adapt and continually meet consumer needs, while still leveraging the global strength of our flagship CSD beverage portfolio.

Q: What progress has PepsiCo made in its SAP implementation?

A: PepsiCo's multi-year technology transformation initiative continues on track. At the end of 2007, we kicked off our third major deployment by successfully implementing new capabilities to PCNA and the Quaker, Tropicana and Gatorade businesses. These implementations build on earlier SAP releases, enhancing the order management and demand planning functions for the Quaker, Tropicana and Gatorade businesses and deliver new capability to PCNA's fountain equipment service model. They also lay the groundwork to convert all of the financial processes, contracts and projects to SAP technology.

On the international front we went live with SAP financials at Gamesa and Sabritas and launched our first plant in Saltillo, Mexico; successfully integrated our Duyvis acquisition onto our new global platform; and launched China Beverages. We are working toward 2008 implementations in Egypt and Saudi Arabia.

We remain confident in the capabilities and business case that our transformation initiative will deliver.





**Q:** PepsiCo's businesses generate a lot of cash, and some people may believe the company's balance sheet is conservative. Will investors see any changes in capital structure, acquisition activity or increased share repurchases?

**A:** PepsiCo does generate considerable cash, and we are disciplined about how cash is reinvested in the business. Over the past three years, over \$6 billion has been reinvested in the businesses through capital expenditures to fuel growth. All cash not reinvested in the business is returned to our shareholders. Since 2005, \$16 billion has been returned to shareholders through a combination of dividends and share repurchases; and in 2007, cash returned to shareholders was up 34%. We will generally use our borrowing capacity in order to fund acquisitions — which was the case in 2007, when we spent \$1.3 billion in acquisitions to enhance our future growth and create value for our shareholders. Our current capital structure and debt ratings give us ready access to capital markets and keep our cost of borrowing down.

**Q:** In 2007, you expanded your joint venture agreements with Starbucks and Unilever. Does this represent a new growth model for PepsiCo?

**A:** We have great partnerships on ready-to-drink beverages, with both Starbucks and Unilever. If what it takes to win in a certain marketplace is to partner with other brands and together make the pie much bigger, then we will apply that model to grow our businesses.

A key factor in these successful partnerships is that PepsiCo is not simply a distributor. The development of these brands is included in the partnerships between our companies on a worldwide scale, and that certainly distinguishes our model.

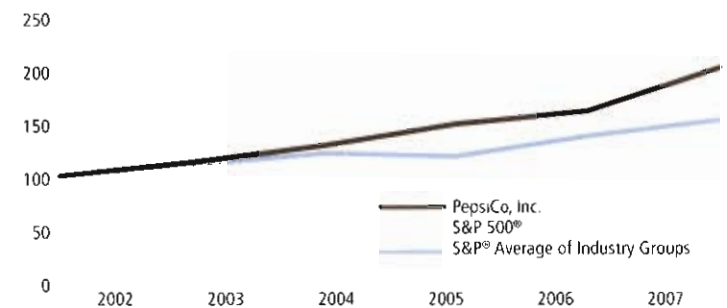
Growth will also come from the enormous opportunities we see for tuck-in acquisitions. We are also expanding into adjacent categories through our recently announced acquisition of Penelopa nuts and seeds in Bulgaria and our 2006 purchase of the Duyvis nuts business in Europe. Last year, we entered the salty snacks business in New Zealand with the

acquisition of Bluebird Foods, and we expanded our snacks business in Brazil with the purchase of Lucky snacks. We also recently announced a joint venture with the Strauss Group to produce and sell Sabra refrigerated dips and spreads in the United States and Canada. In 2007, Sabra was the top-selling and fastest-growing maker of hummus in the United States. And we expanded our global juice footprint by acquiring U.S.-based Naked Juice, and the Sandora juice business in the Ukraine, which we purchased in a joint venture with PepsiAmericas.

So there are tremendous opportunities for us to continue to grow — through partnerships, as well as organically, and with tuck-in acquisitions.

### Cumulative Total Shareholder Return

Return on PepsiCo stock investment (including dividends), the S&P 500 and the S&P Average of Industry Groups. \*



Shareholders purchasing PepsiCo stock at the end of 2002 and holding it to the end of 2007 received a higher cumulative return than the returns of the S&P 500 and our industry groups.

\*The S&P Average of Industry Groups is derived by weighting the returns of two applicable S&P Industry Groups (Non-Alcoholic Beverages and Food) by PepsiCo's sales in its beverage and foods businesses. The return on PepsiCo stock investment is calculated through December 28, 2007, the last trading day prior to the end of PepsiCo's fiscal year. The return for the S&P 500 and the S&P Average indices is calculated through December 31, 2007.

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
PepsiCo, Inc.	\$100	\$113	\$129	\$149	\$161	\$202
S&P 500®	\$100	\$129	\$143	\$150	\$173	\$183
S&P® Avg. of Industry Groups	\$100	\$110	\$121	\$118	\$137	\$152





## Our Global Leadership Team

PepsiCo's strong results are driven by a deeply experienced, global leadership team that is aligned to position our new business structure for future growth.

Our PepsiCo Executive Committee provides a solid bench of leadership talent, with over 415 years combined PepsiCo experience. We are also continually feeding and developing the leadership pipeline with our Leadership Development MBA internship program, through our annual "Ring of Honor" sales awards and leadership development program, our Multicultural Inclusion Summit, and by hiring the very best experienced leaders into strategic roles. And our new organizational structure provides more executives with the opportunity to run large businesses and gain global operating experience.

Our leadership team is ready to instill the best of PepsiCo across all of our divisions and geographies to generate profitable growth, expand our global presence and continue our journey for Performance with Purpose.

### Diversity and Inclusion Statistics

	Total	Women	%	Minority	%
Board of Directors*	10	3	30	3	30
Senior Executives**	28	3	11	12	43
Executives (U.S.)	2,326	763	33	470	20
All Managers (U.S.)	10,862	4,037	37	3,003	28
All Employees (U.S.)***	58,532	15,125	26	17,936	31

At year-end we had approximately 185,000 associates worldwide.

\*Our Board of Directors is pictured on page 29.

\*\*Includes PepsiCo Executive Committee members listed on the next page.

\*\*\*Includes full-time employees only.

## OUR NEW BUSINESS STRUCTURE

In the fourth quarter of 2007, PepsiCo announced a strategic realignment of our organizational structure. Beginning in 2008, we are now organized into three business units, as follows:

- 1) PepsiCo Americas Foods (PAF)**, which includes Frito-Lay North America, Quaker Foods North America and all of our Latin America food and snack businesses, including our Sabritas and Gamsa businesses in Mexico.
- 2) PepsiCo Americas Beverages (PAB)**, which includes PepsiCo Beverages North America and all of our Latin America beverage businesses.
- 3) PepsiCo International (PI)**, which includes all PepsiCo businesses in the United Kingdom, Europe, Asia, Middle East and Africa.

The financial section of this annual report (pages 31-86) is based on the 2007 reporting structure. Turn to pages 12-17 of this annual report for highlights of the successes and capabilities of the new business structure, as shared by the CEOs of PAF, PAB and PI.





# PepsiCo Executive Committee

## Corporate

**25 Indra K. Nooyi**  
Chairman of the Board and  
Chief Executive Officer

**13 Mitch Adamek**  
Senior Vice President and  
Chief Procurement Officer

**3 Rich Beck**  
Executive Vice President  
PepsiCo Chicago

**12 Robert Dixon**  
Senior Vice President, Global  
Chief Information Officer  
PBSG

**19 Richard Goodman**  
Chief Financial Officer

**20 Julie Hamp**  
Senior Vice President  
PepsiCo Communications

**10 Mehmood Khan**  
Chief Scientific Officer

**15 Ronald C. Parker**  
Senior Vice President  
Chief Global Diversity and  
Inclusion Officer

**17 Larry D. Thompson**  
Senior Vice President  
Government Affairs, General  
Counsel and Secretary

**6 Cynthia M. Trudell**  
Senior Vice President  
PepsiCo Human Resources

## PepsiCo Americas Foods

**22 John C. Compton**  
Chief Executive Officer  
PepsiCo Americas Foods

**24 Albert P. Carey**  
President and  
Chief Executive Officer  
Frito-Lay North America

**28 Mark Schiller**  
President  
Quaker Foods and Snacks  
North America

**18 Pedro Padierna**  
President  
Sabritas Region

**14 Jose Luis Prado**  
President  
Gamesa-Quaker

**16 Olivier Weber**  
President  
South America Foods

**26 Tom Greco**  
President  
PepsiCo Sales

## PepsiCo Americas Beverages

**21 Massimo F. d'Amore**  
Chief Executive Officer  
PepsiCo Americas Beverages

**8 Hugh Johnston**  
President  
Pepsi-Cola North America

**23 Todd Magazine**  
President  
Gatorade

**2 Luis Montoya**  
President  
Latin America Beverages

**27 Chris Furman**  
President  
PepsiCo Foodservice

**5 Neil Campbell**  
President  
Tropicana

## PepsiCo International

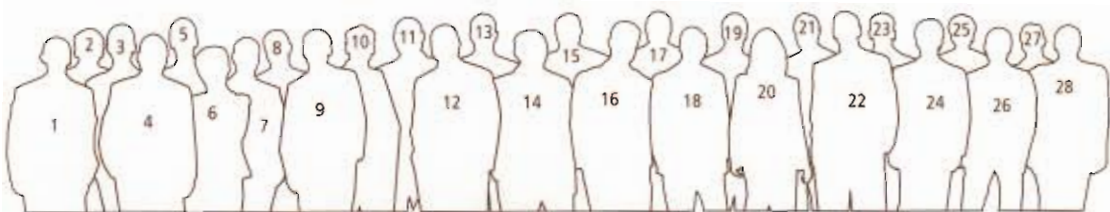
**7 Michael D. White**  
Chief Executive Officer  
PepsiCo International  
Vice Chairman, PepsiCo

**1 Tim Minges**  
President  
PepsiCo Asia Pacific

**9 Zein Abdalla**  
President  
PepsiCo Europe

**11 Saad Abdul-Latif**  
President  
PepsiCo SAMEA Region

**4 Salman Amin**  
President  
PepsiCo United Kingdom



## PepsiCo Americas Foods

“PepsiCo Americas Foods (PAF) may be new in terms of geography and organizational structure, but there’s nothing new about our success. PAF brings together a group of big, vibrant businesses like Frito-Lay and Quaker Foods in North America, Sabritas and Gamesa in Mexico and Elma Chips in Brazil. Collectively, they market and sell some of the world’s most popular snack and food brands.

These businesses have been making major contributions to PepsiCo’s growth for many years.

Our success is built on several advantages — some structural and some cultural. First, by keeping our ears to the ground and our eyes on the marketplace, we have been able to

innovate and market our brands better than most. Second, our scale and vertical integration provide us advantages in manufacturing, warehousing and distribution. Third, our go-to-market systems provide ubiquitous reach, putting our brands virtually wherever consumers live, work and play. We operate over 35,000 direct-to-store selling routes and have access to a scaled warehouse and third-party distributors. Finally, and most importantly, we have the cultural advantage of having all of our associates empowered to make a difference.

Our Performance with Purpose journey has many great 2007 highlights:

- Frito-Lay North America (FLNA) is PAF’s largest operating division and had another tremendous year. Revenue grew 7%, led by double-digit growth in Doritos snacks, multipacks, dips and SunChips snacks. Additionally, we continued to extend beyond the core by introducing Flat Earth baked fruit and vegetable crisps. And Stacy’s pita chips is the fastest-growing brand in the fast-growing salty snacks category.
- Quaker Foods North America had solid revenue growth of 5% driven by our hot cereals business.

- Sabritas continued to perform very well with operations in Mexico, Central America and the Caribbean. Strong sales results were complemented by record-high productivity savings and employee advancements throughout the region.
- Mexico’s Gamesa-Quaker business posted exceptionally strong volume and share growth, with premium cookies leading the way.
- Finally, our South America foods business — which includes operations in Brazil, Argentina, Colombia, Peru and Venezuela — grew organically and via acquisition, through the purchase of the Lucky snacks business in Brazil.



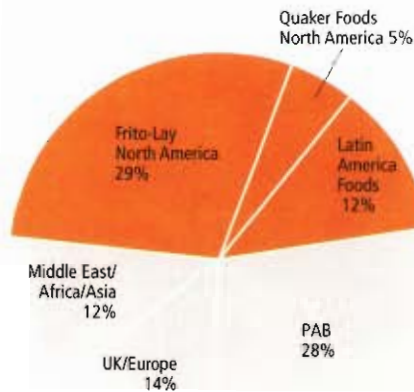
# PERFORMANCE





## PepsiCo Net Revenue: \$39,474

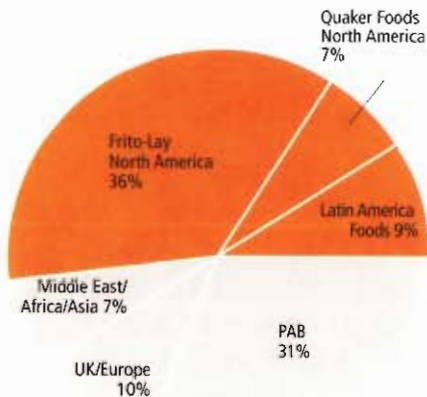
PepsiCo, Inc. and Subsidiaries  
\$ in millions



PAF comprises 46% of PepsiCo Net Revenue

## PepsiCo Division Operating Profit: \$7,923

PepsiCo, Inc. and Subsidiaries  
\$ in millions



PAF comprises 52% of PepsiCo Division Operating Profit



## So, where do we grow from here?

Convenience and health and wellness will continue to drive consumers to our snack and food offerings. We have a balanced portfolio of fun and nutritious products with new additions like True North nut snacks and Quaker Simple Harvest Multigrain Hot Cereal. And we are introducing a new line of premium, wholesome cookies and snacks under the Quaker trademark. These are in addition to our usual strong offerings from brands like Doritos, Sabritas and Elma Chips.

## Our greatest source of growth will continue to come from the engagement of our people.

Our new PAF structure provides opportunities to quickly share best practices and scale regional successes. We have a terrific team of diverse and devoted

people who are committed to winning wherever and however we operate — from seed to shelf — while taking care of the world around us.

We're focused on delivering Performance with Purpose throughout the Americas. In PAF parlance, that's savory food for thought.

*John Compton*

**John Compton**  
CEO, PepsiCo Americas Foods



## PepsiCo Americas Beverages

“Rejuvenating, replenishing, restoring, refreshing consumers’ thirst all over the Americas 440 million times a day is what we do in PepsiCo Americas Beverages (PAB).

Across the United States, Canada and Latin America, PAB is shaped around great people, great brands and great consumer insights. We enjoy the number-one or -two share position in virtually every market in which we compete, and we continue to push the innovation envelope into emerging growth categories. Our powerful go-to-market systems allow fast and flexible service across multiple trade channels.



Here are some examples of how we performed in 2007:

- PAB already has North America’s foremost non-carbonated beverage lineup. Growing our leadership positions in water, enhanced waters and isotonic, we’re focused on building on our hydration advantage. Including restaged SoBe Life Water, reformulated Aquafina Alive, the full Propel line, Gatorade Thirst Quencher and low-calorie G2 — the single-biggest new product innovation in Gatorade’s history — we now have the industry’s biggest, most comprehensive hydration portfolio, outselling our nearest competitor by a factor of nearly two to one.
- What’s more, we’ve signed legendary golfer Tiger Woods to develop a signature line of sports performance beverages. Representing the first-ever licensing deal for the Gatorade brand and Tiger Woods’ first-ever endorsed sports beverage, Gatorade Tiger, the first product in the new line, hit store shelves in March 2008.
- Leveraging consumers’ inherent love of bubbles, we also have been working to reinvent carbonated soft drinks and provide greater variety in North America. Diet Pepsi Max, for example, is a great-tasting, zero-calorie cola with ginseng and extra caffeine to provide a kick of energy — a real point of difference. Launched in January 2008, Tava is another unique carbonated soft



drink proposition. It’s a zero-calorie, zero-caffeine sparkling beverage in three exotic flavor blends. Light, crisp-tasting Tava is fortified with essential vitamins, minerals, and antioxidants, including Vitamins B6, E, Niacin and Chromium.

- Answering the call for better-for-you innovation at the breakfast table (and beyond), we successfully launched Tropicana Pure Premium Healthy Heart — the United States’ first national orange juice fortified with Omega-3 fatty acids.
- In Argentina and Brazil, 7UP H2Oh! — a lightly carbonated, distinctively flavored water — is a sensational new product that could easily become a global success.

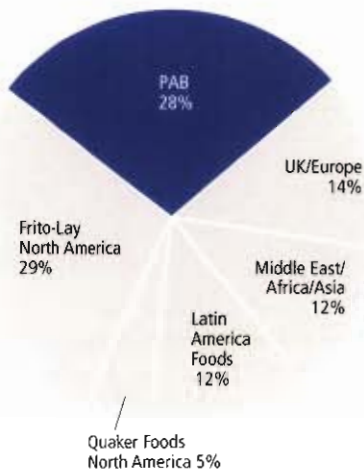


# PERFORMANCE



## PepsiCo Net Revenue: \$39,474

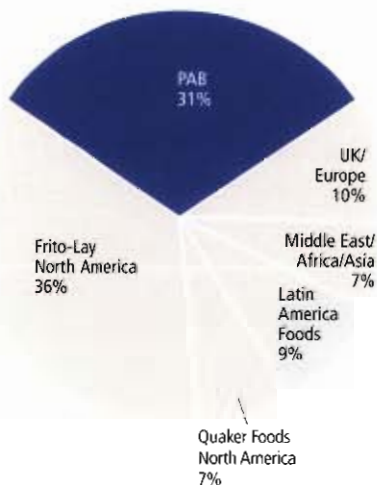
PepsiCo, Inc. and Subsidiaries  
\$ in millions



PAB comprises 28% of PepsiCo Net Revenue

## PepsiCo Division Operating Profit: \$7,923

PepsiCo, Inc. and Subsidiaries  
\$ in millions



PAB comprises 31% of PepsiCo Division Operating Profit

There are countless other examples of what we're doing north and south of the border — initiatives that will allow us to selectively seize multicultural marketing opportunities in the United States and elsewhere.

Breakthrough marketing is putting our brands where they belong — at the core of pop culture.

We are leveraging the world's most interactive communications environment to get there, creating unprecedented consumer "buzz" via internet blogs, online video views and interactive promotions.

Wherever we operate, we're offering an increasingly diverse portfolio of product choices to more and more variety-conscious consumers. Prevailing trends such as health and wellness will continue to drive our portfolio transformation and lead to growth opportunities like our acquisition of Naked Juice in 2007. Our R&D and marketing teams understand we have to move quickly to invest in better-for-you and good-for-you products, which is now reflected in our innovation pipeline.

Going forward, we will continue to invest in marketing and insights to build our competitive advantage and accelerate future growth. We have only begun

to show the power of our brands, the acuity of our strategic vision and the innovative thinking of our people. Be it new products, packages or programs, we are committed to promoting faster and more efficient transfer of ideas and best practices throughout the Americas.

Ciao,

**Massimo d'Amore**  
CEO, PepsiCo Americas Beverages



# PepsiCo International



2007 was a year of exciting progress for PepsiCo International, marked by strong financial results and important gains in the marketplace. Once again PI was the largest contributor to PepsiCo's revenue and profit growth in 2007.

I am particularly proud of our 2007 performance because we built a strong foundation for future growth.

We completed acquisitions in 2007 that are expected to add over \$1 billion to our 2008 revenues. Importantly, they also advance the strategic transformation of our international portfolio. We also made major investments to transform our information systems and capability to be better equipped to support and enable further growth.



To convey the breadth of our progress, let me share a few 2007 highlights:

- We dramatically strengthened our non-carbonated beverage portfolio by expanding our successful Unilever tea partnership and launching an international joint venture for Starbucks ready-to-drink coffee products.
- In the United Kingdom, our Baked Walkers crisps, with 70% less fat than original Walkers, was declared "New Product of the Year" by *Marketing Week* magazine; while an important turnaround in beverage volume led to mid-single-digit volume growth.
- We continued our portfolio transformation in Europe with the launch of Baked Lay's crisps and integration of Duyvis nuts. We also enjoyed strong growth in non-carbonated drinks, complemented by the acquisition, with PepsiAmericas, of Ukraine's leading juice company.
- In Russia, annual beverage volume reached more than 200 million cases, while we strengthened our leadership in savory snacks and broke ground on our second snack plant.



- In the Middle East, zero-calorie Pepsi Max posted strong growth, and Mountain Dew surged ahead in markets like Nigeria and Pakistan; the Lay's brand helped drive continued share gains in Turkey, while the Doritos brand drove healthy growth in Egypt.
- In Asia, new marketing drove double-digit growth in non-sugar colas in virtually all markets; and new locally tailored flavors sparked strong growth in savory snacks, particularly in China and Thailand.

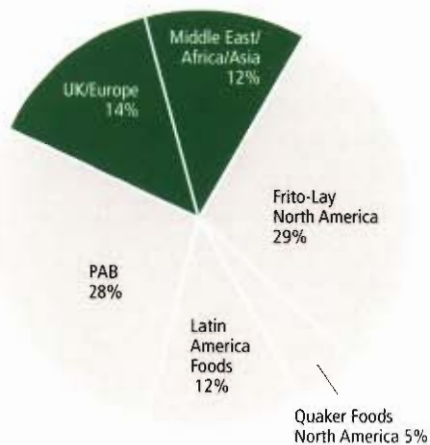
## PERFORMANCE





## PepsiCo Net Revenue: \$39,474

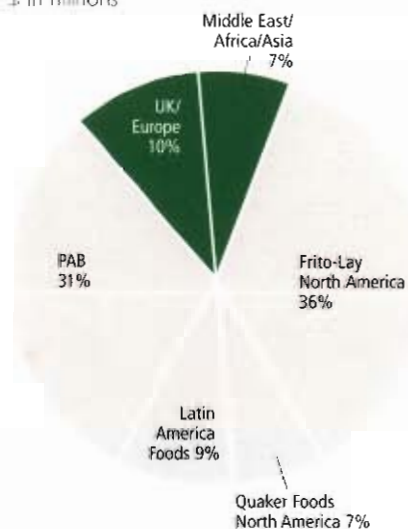
PepsiCo, Inc. and Subsidiaries  
\$ in millions



PI comprises 26% of PepsiCo Net Revenue

## PepsiCo Division Operating Profit: \$7,923

PepsiCo, Inc. and Subsidiaries  
\$ in millions



PI comprises 17% of PepsiCo Division Operating Profit

For all our progress, we still have enormous room to grow.

Under PepsiCo's new organization, PI today offers a diverse portfolio of scale businesses with critical mass and solid profit margins, spanning the United Kingdom, Europe, the Middle East, Asia, Australia and Africa. This is a vast area comprising 86% of the Earth's population and 45 of the 50 fastest-growing economies — not only China, India and Russia, but many smaller, fast-growing markets like Vietnam, Pakistan, Turkey and Eastern Europe.

Our business is well-balanced between developed and developing nations. And our expanding product portfolio, offering benefits ranging from simple refreshment to basic nutrition, positions us well to serve a wide range of consumer needs.

I'm confident we'll fulfill PI's mission, thanks to our outstanding team of PI associates and many valued partners, who work together every day, focused on common goals and embracing the core values of PepsiCo.

We are deeply committed to Performance with Purpose and operating in sustainable ways that benefit our shareholders, employees, business partners and the communities we serve.

Looking ahead, I see vast opportunity for PepsiCo International. I also am excited by our opportunities for progress in the corporate functions I now lead: Information Technology and Global Purchasing. And I feel especially privileged to have a major role in developing the next generation of PepsiCo leaders. Nothing is more important to our continued success.

**Michael D. White**  
Vice Chairman, PepsiCo  
CEO, PepsiCo International







## Power of One

"Given shifting population movement around the world, our largest customers encourage PepsiCo Power of One teams to fully leverage our diverse global portfolio to accelerate growth. We dive deep to understand the unique shoppers of each strategic customer, which enables a greater flow of innovative and customized product solutions. We then leverage our portfolio to drive sales and profit growth for PepsiCo and our retail partners by offering relevant products and targeted programs to consumers in a more localized way worldwide."

— Tom Greco, President, PepsiCo Sales



# Profit is where PepsiCo's responsibility begins, not ends.

Throughout our long history of delivering profit and performance for shareholders, a deep sense of purpose has been embedded in everything we do. It represents the fundamental commitment we have embraced for years — to give back as we grow. This is a continuing journey that spans three major areas of focus — human sustainability, environmental sustainability and talent sustainability.



## Human Sustainability

*Nourishing our consumers with a range of fun and healthy products, and making the healthful choice an easier choice.*



## Environment Sustainability

*Replenishing the natural resources we can, and minimizing the impact we have on our environment.*



## Talent Sustainability

*Cherishing our employees, and making PepsiCo the most desirable place for people of all backgrounds to establish personal and professional growth.*

PepsiCo has made considerable progress on each of these priorities, from our industry-leading product labeling with the Smart Spot program in 2004, to last year's purchase of renewable energy certificates, to our 2008 launch of PepsiCo University to develop tomorrow's multi-cultural/multigenerational leaders.

As a member of the Dow Jones Sustainability World Index (DJSI World) and the Dow Jones Sustainability North America Index (DJSI North America), PepsiCo is a recognized leader in sustainability. The DJSI World comprises the top 10% of the world's 2,500 largest companies based on corporate economic, environmental and social performance. The DJSI North America captures the leading 20% of companies in sustainability out of the largest 600 North American companies of the Dow Jones Global Index.



**Dow Jones  
Sustainability Indexes**

### 2007 Contribution Summary

\$ in Millions

PepsiCo Foundation . . . . .	\$23.4
Corporate Contributions . . . . .	4.3
Division Contributions . . . . .	8.2
Estimated In-Kind Donations . .	38.9
<b>Total . . . . .</b>	<b>\$74.8</b>

PURPOSE







# Human

## Sustainability

To nourish consumers is our fundamental commitment. It begins with product innovation and transformation, extends to marketing and labeling commitments that make the smart choice an easy choice for consumers, and continues with support for research and development programs to advance public health around the world. Finally, we balance the entire energy equation through community outreach programs designed to empower and motivate consumers to adopt healthier, more active lifestyles.

### Product Innovation

We have been reinventing our brands to meet consumer needs for healthier lifestyles since we introduced Diet Pepsi in 1964.

As we grow, PepsiCo will continue our transformation with a systematic plan to reduce sodium, added sugar and saturated fats in our products. We start with science and authoritative statements from the World Health Organization, the Food and Drug Administration and the U.S. National Academy of Sciences for identifying how we should best focus our efforts. We then look at nutrition-based standards including total calories, fat, carbohydrate and protein as well as vitamins and minerals, and then reformulate our products to offer smart choices that contribute to an overall healthier diet and lifestyle. We don't stop there, because we also look for ways to add wholesome ingredients, such as fruit, whole grains and fiber to many of our products.

Our transformation as a good company with nourishing products, from snacks to healthier treats, gained momentum across all of our businesses in 2007:

- We reduced saturated fats in our Frito-Lay potato chip and Walkers crisp brands, by converting to sunflower oil.
- We expanded our baked snacks in Brazil and introduced low-fat bread snacks in Chile, Puerto Rico, Spain, Turkey and Saudi Arabia.
- Tropicana promoted cardiovascular health, by becoming the first national orange juice to include Omega-3s, the fatty acids known for helping to promote heart health.
- Frito-Lay introduced Flat Earth fruit and vegetable crisps that combine great taste and nutrition in a break-through snack with a ½ serving of fruits or vegetables baked into each ounce.



*Quaker Mini Delights multi-grain cakes are for calorie-conscious consumers who say they're looking for a satisfying snack option that tastes great and helps them stay on track. Mini Delights bring three new benefits to the snack category: taste indulgence, 90-calorie portion packs and plenty of pieces in every pouch.*

- Our Gamesa-Quaker business in Mexico launched a new line of oat-based cookies and snacks, and our South Africa business launched a new health snack line called Sunbites pretzels.

### Marketing and Labeling

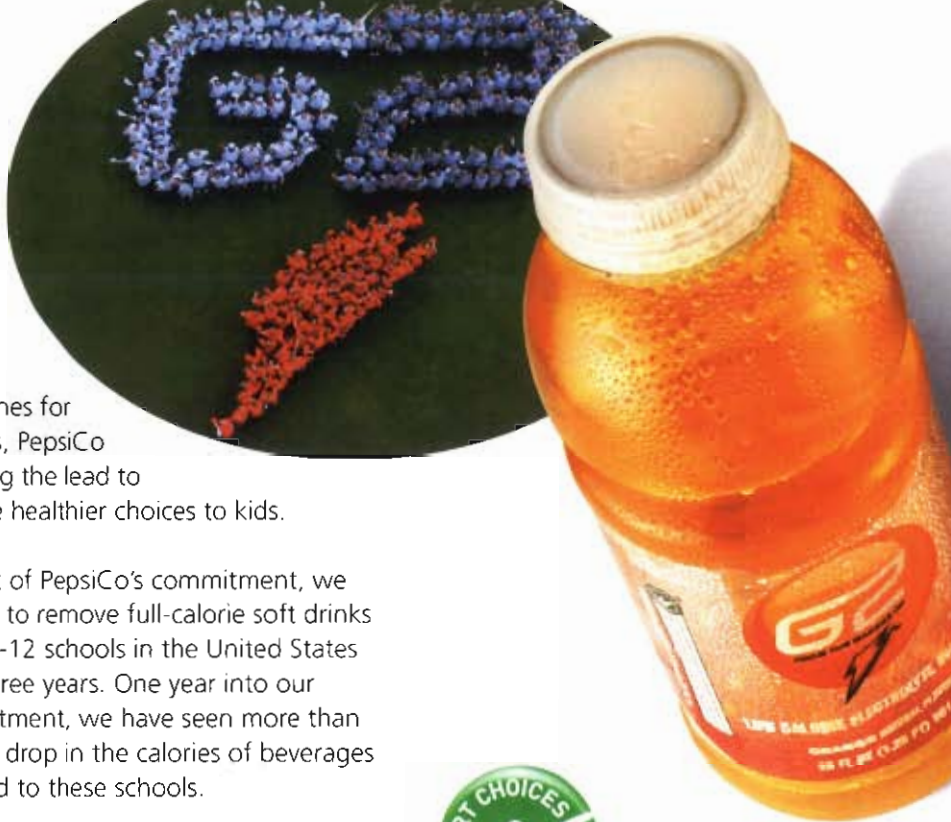
Our commitment to nourish is fully embraced in our marketing and labeling programs around the world. Last year, PepsiCo was a founding member of a voluntary U.S. food and beverage industry initiative that redefined how we market products to children under 12. Today, less than 1% of PepsiCo's total advertising budget in North America is allocated for advertising to kids, and 100% of that advertising is devoted exclusively to Smart Spot products.

PepsiCo Europe has recently made a similar advertising and school marketing





With the addition of G2, a low-calorie lifestyle beverage, the broadened Gatorade line meets the hydration needs of athletes and active people on a 24/7 basis. With just 25 calories per 8-oz serving, G2 helps keep people hydrated when they are not playing sports or exercising. More than 200 associates at PepsiCo's Chicago office commemorated the product launch by creating a G2 living logo.



pledge, and full implementation with independent monitoring of this new program will begin next year.

And in the United Kingdom, in partnership with dozens of other food and beverage companies and the Food and Drink Federation, PepsiCo has introduced front-of-package nutritional labeling across all its brands. The labels help consumers understand the percentage of their "Guideline Daily Amount (GDA)" of calories, sugars, fat, and salt that is contained in a portion of food or drink. GDAs are now being rolled out across PepsiCo Europe — all of our products in European Union countries will display GDAs by the end of 2008.

PepsiCo is also a founding member of the Keystone Center Food and Nutrition Roundtable, which seeks to drive improvements in the American diet and long-term improvements in public health; its current focus is to establish common front-of-package nutritional labeling to help consumers identify healthier choices.

In 2006, PepsiCo joined with the Alliance for a Healthier Generation — a joint initiative of the American Heart Association and the William J. Clinton Foundation — and other leaders in the U.S. food and beverage industries to adopt voluntary guidelines for the foods and beverages we offer to grade schools in the United States. As the only food and beverage company to have embraced both the beverage and food

guidelines for schools, PepsiCo is taking the lead to provide healthier choices to kids.

As part of PepsiCo's commitment, we agreed to remove full-calorie soft drinks from K-12 schools in the United States over three years. One year into our commitment, we have seen more than a 40% drop in the calories of beverages shipped to these schools.

### Supporting Research and Development

The PepsiCo Foundation is deeply engaged in developing new partnership models which lead to healthier communities and new research insights. In the United States, the Foundation's grant to Tufts University supported a groundbreaking project that resulted in measurable improvements in school children's body mass index.

Last year, we announced a new PepsiCo Foundation grant of \$5.2 million to the Oxford Health Alliance, for implementation and evaluation of community-based health interventions in China, England, India and Mexico, impacting more than two million people. The Foundation's grant helped launch a program to enhance scientific knowledge about the effectiveness of community interventions in reducing the prevalence of chronic diseases.



*In the United States and Canada, our green Smart Spot packaging symbol makes it easier for consumers to identify products that can contribute to healthier lifestyles. All PepsiCo products carrying the Smart Spot symbol meet nutrition criteria based on authoritative statements from the U.S. Food and Drug Administration and the National Academy of Sciences or provide other functional benefits.*

### Getting Active through Community Outreach

PepsiCo is committed to helping people achieve energy balance through physical activity.

In China for example, PepsiCo introduced a "Sports and Music" promotion to encourage people to participate in sports; and the U.S.-based Gatorade Sport Science Institute established a branch in China to help Chinese athletes improve performance through scientific research.



# NOURISH

## Blue Ribbon Advisory Board

Our Smart Spot Dance program in the United States launched a multi-city instructional dance program to provide a fun way for families, especially moms, to become more physically active.

PepsiCo International Mexico launched the Vive Saludable Escuelas Health and Wellness program, an initiative to teach kids how to work towards a healthier lifestyle by combining daily physical activity and a balanced diet. Each student worked with interactive software that taught them about the calories in/calories out equation. Students were taught a daily physical education routine designed by Mexico's Sports Commission and implemented by teachers at each school. The program will impact one million children in 3,000 schools throughout Mexico.

The PepsiCo Blue Ribbon Advisory Board delivers high-level, independent insight about major health and wellness policies. It also offers science-based perspectives on product transformation, labeling and marketing and provides guidance on partnerships that promote physical activity.



1 Gro Harlem Brundtland, M.D., Former Director-General, World Health Organization, United Nations, Former Prime Minister, Norway

2 Antonia Demas, Ph.D., President, Food Studies Institute



3 James O. Hill, Ph.D., Professor of Pediatrics & Medicine, University of Colorado Health Sciences Center, Founder, America On the Move

4 Brock H. Leach, Seminary Student & Community Volunteer, PepsiCo Chief Innovation and Health & Wellness Officer, Retired



5 William Sears, M.D., Associate Clinical Professor of Pediatrics, University of California, Irvine, School of Medicine

6 Janet E. Taylor, M.D., Clinical Instructor of Psychiatry, Columbia University



7 Governor James B. Hunt, Jr., Former Governor of North Carolina

8 David A. Kessler, M.D., J.D., Dean, School of Medicine, Vice Chancellor for Medical Affairs, University of California, San Francisco

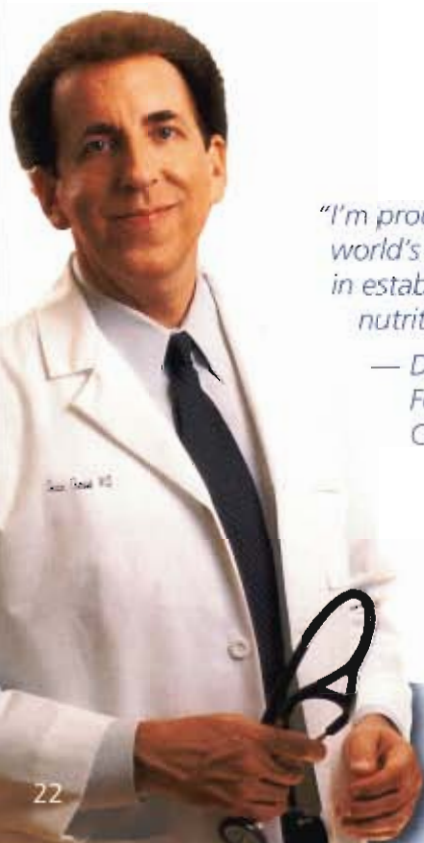
9 Kristy F. Woods, M.D., M.P.H., Former Director, Maya Angelou Research Center for Minority Health, Wake Forest University

10 David Heber, M.D., Ph.D., Professor of Medicine & Public Health and Director, UCLA Center for Human Nutrition

11 Raquel Malo, Sr. Vice President, High Performance Nutrition, Human Performance Institute (Joined 2008)

*"I'm proud of the work of the PepsiCo Blue Ribbon Advisory Board, which includes many of the world's leading experts in health and nutrition. It is a tangible example of visionary leadership in establishing PepsiCo as a health and wellness leader in portfolio transformation, policy, and nutrition science."*

— Dean Ornish, M.D., Chairman of the PepsiCo Blue Ribbon Advisory Board  
Founder & President, Preventive Medicine Research Institute  
Clinical Professor of Medicine, University of California, San Francisco







# Environment

## Sustainability

*"Frito-Lay uses the energy from the sun in so many ways. Many of our products are distributed through our Phoenix, Arizona distribution center, where we have solar panels on the roof that generate electricity; and we are installing solar collectors at our plant in Modesto, California to provide up to 75% of the thermal energy the plant uses to make SunChips snacks in that location. As a six-year member of the Frito-Lay sales organization, I'm glad to work for a company that is finding many ways to use renewable energy."*

*— Carrie Carroll, National Account Manager, Frito-Lay North America  
2007 PepsiCo President's Ring of Honor Recipient for Top Sales Performance*



# REPLENISH



We strive to replenish the resources we've used, where possible, as part of our commitment to being an environmentally responsible corporate citizen. Our associates are passionate about this vision and continue to drive programs to reduce our energy and water consumption, invest in new energy research and improve our packaging sustainability.

We have proven that extraordinary results are possible. Frito-Lay has reduced per-pound water use by more than 38%, manufacturing fuels by more than 27% and electricity by more than 21% since 1999; and our Quaker, Tropicana and Gatorade businesses have reduced manufacturing fuels by 26%, electricity by 24% and water by 12% in the last three years.

We're achieving similar results in markets outside the United States. In Mexico, our Sabritas team has cut per-unit electricity use by more than 9% over the past five years, and water use by 26%. In China, our bottling plants have reduced water consumption by 40% and energy consumption by 38% over the past three years.

Throughout the world, we have similar stories that demonstrate how we are taking this responsibility seriously, because it is the right thing to do, but also because it's the smart thing to do for more efficient use of energy, water and packaging in our business operations.

### Conserving Energy and Harnessing Renewable Resources

2007 was a year of considerable progress for PepsiCo, beginning with external partnerships and programs focused on renewable energy and strategies to reduce greenhouse gas emissions.

PepsiCo joined the U.S. Environmental Protection Agency (EPA) Climate Leaders, a voluntary partnership program that works to develop comprehensive climate change strategies, including supporting reduction in greenhouse gases. And we were the first consumer products company to join with other concerned companies and non-governmental organizations in the U.S. Climate Action Partnership to encourage the federal government to enact climate legislation. These programs make good commercial sense for us and help us use our resources well.

We are also proud of PepsiCo's landmark purchase of renewable energy certificates. This financial instrument stimulates and supports the development of renewable electricity, and our investment matches the purchased electricity, used by all of PepsiCo U.S.-based manufacturing facilities, headquarters, distribution centers and regional offices.

Our three-year purchase of more than one billion kilowatt-hours annually is the same amount of electricity needed to power nearly 90,000 average American homes annually, as estimated by the U.S. EPA based on national averages.

We are already implementing many of our own renewable energy operations. In 2007, we announced major renewable energy projects including plans for our "net zero" plant in Casa Grande, Arizona. With plans to run almost entirely on renewable fuels and recycled water, this plant is scheduled to begin production by 2010.

Frito-Lay North America flipped the switch last year on the largest business-owned, photovoltaic power system in Arizona. Producing no emissions, the system captures the energy of one of Arizona's abundant natural resources — turning the power of the sun into electricity. It incorporates a 201-kilowatt photovoltaic array covering 27,000 square feet of roof space at the company's service center in Phoenix. PepsiCo has already installed photovoltaic systems in six other distribution centers, from California to New York.



*Walkers is the first major food brand in the world to display a carbon footprint/reduction logo on its packs. The label was developed by the Carbon Trust, a U.K.-government-funded independent organization that works to accelerate the move to a low-carbon economy.*

*Walkers has had a partnership with the Trust since 2001 and has reduced energy use per pack by a third and water use by almost half. One step in reducing carbon was sourcing the potatoes domestically to reduce the transport miles. The Walkers advertising campaign highlights that the brand now uses 100% Great British potatoes.*

Our bottlers are also sourcing power from the sun. In 2007, The Pepsi-Cola Bottling Company of Eugene installed a 250-kilowatt solar electric system in their Oregon facility, which is now the second-largest photovoltaic system in the Pacific Northwest. The renewable energy generated from this system is the equivalent to the average annual energy consumption of approximately 21 Eugene homes and has a regional carbon dioxide offset of about 140 tons per year.

Projects in other regions went live last year as well. PepsiCo India launched our

### **PepsiCo has seven photovoltaic-powered distribution centers.**

first remote wind turbine, harnessing one of the most efficient, clean and renewable sources of energy. This turbine is connected to the public electricity grid with sufficient power to meet more than 75% of the electricity needs of the company's local Mamandur plant, and it directly offsets up to 7% of our company-owned bottling operations' power requirements for 2008. The initiative is estimated to help reduce carbon emissions by more than 3,500 tons annually, with the potential to offset 70,000 tons of carbon emissions over its entire 20-year life cycle.

### **Improving Access to Water**

PepsiCo is addressing the world's water challenge at all levels of our influence.

In 2007, we announced support for global initiatives that seek to improve access to water. These include the CEO Water Mandate, a partnership with the

international community to address water issues both in our own operations and our supply chain. We also affirmed support for the UN Millennium Development goals, which have wide-ranging ramifications for water programs.

In China and India, the PepsiCo Foundation is helping to change the lives of an increasing number of people through our support of organizations that are focused on building sustainable water practices, including the Chinese Women's Development Foundation and The Energy and Resources Institute in India.

In early 2008, PepsiCo announced a partnership between the PepsiCo Foundation and the Earth Institute at Columbia University, one of the world's premier institutions dedicated to global sustainable development. And the company announced a commitment to H2O Africa, a foundation focused on clean water initiatives in Africa.

### **Building a Lifecycle of Environmentally Responsible Packaging**

We have formed a Sustainable Packaging Council to develop a roadmap that will guide us toward achieving packaging systems that are environmentally responsible throughout their entire lifecycle.

Although beverage containers like ours are the most recycled consumer packaging in the United States, and they are designed for recycling, we continue to look for ways to reduce the amount of packaging used for our products. And we are achieving success. For example, Pepsi's soft drink bottles contain 10%

recycled content, the weight of a two-liter polyethylene terephthalate (PET) soft drink bottle has been reduced by 39% since 1980, and our Aquafina 500 ml PET bottle weight has been reduced by more than a third since 2000.

We also team with business and community partners to encourage reuse and recycling.

We continued our partnership for a second year with Sam's Club and Keep America Beautiful to "Return the Warmth," collecting and recycling over 70 million PET bottles via schools, and giving away over 25,000 backpacks made from recycled PET.

PepsiCo put a spotlight on recycling at the Live Earth New York concert by making it easy for people to recycle their bottles and cans and by offering information about how they can make recycling a part of their everyday lives. Our commitment to environmental responsibility extends across the globe. One highly successful program is our PepsiCo India partnership with Exnora International, an environmental non-governmental organization, to manage domestic solid waste. The program was recognized by UNICEF as a model project and as a center for international learning.

Looking into the future, PepsiCo teams are developing innovative packaging solutions which include cutting-edge technologies for even more environmentally friendly packaging.







# Talent Sustainability

By inspiring, challenging and cherishing our associates, we're making PepsiCo a company where coming to work means more than just having a job. And that's important in today's marketplace because global competition for talent has never been more intense. Companies that win provide the best opportunities for personal and professional growth.

PepsiCo already has some of the very best talent in our industry, thanks to our industry-leading people processes. But as we evolve to meet future business needs, we must also continue to evolve our approach to recruiting, developing, rewarding and retaining our associates. We made excellent progress toward this objective in 2007 by enhancing our focus on "people results," and further defining key ways to: nurture talent, empower people, and expand opportunities for diversity and inclusion.

## Nurturing Talent: Our Greatest Sustainable Advantage

Our people are our greatest strength. Without great people, we can't deliver great results for the long term. By focusing on the continuing development of our associates and their ability to work effectively together, we believe we will maximize PepsiCo's performance and be even better positioned to build on our current success in the marketplace.

We reinforced our people priorities in 2007 by changing how we evaluate performance, giving equal weight to the achievement of people results and business results. This new 50/50 balance of goals and objectives is designed to

ensure that an associate focuses on the growth and development of the team as well as him or herself, while equally focusing on achieving business results. Putting accountability and 50/50 weighting to people priorities helps nurture PepsiCo's already strong culture of diversity and inclusion where people feel valued and respected for their unique talents, perspectives and experiences.

## Empowering People with Clear Expectations

Knowing what's expected of us — and everyone around us — helps us act with responsibility, trust and understanding of how leadership and individual performance are rewarded. As a guide for associates in all functions and at all levels of our organization, we introduced the PepsiCo Leadership and Individual Effectiveness Model in 2007. By communicating what's important at PepsiCo and what we value from each of our associates, we are helping to shape an unrivaled corporate environment that provides our company with the ultimate competitive advantage.

The model details the key competencies and associated behaviors that are required — individually and collectively

— to assure we reach our performance goals. Regardless of current role, level or career aspiration, every associate can use the model to understand which behaviors they should strive for today and what will contribute to their own personal success, as well as success for PepsiCo.

## Expanding Opportunities through Diversity and Inclusion

We believe a sense of belonging in our professional lives is just as important as it is in our personal relationships; it builds trust, encourages teamwork and collaboration, and enables the free sharing of ideas that helps us develop, grow and innovate. This is why we continue to grow our efforts to promote diversity and inclusion around the globe.

PepsiCo and its bottler community achieved 2007 spending of approximately \$1.13 billion with U.S. minority-owned and women-owned suppliers, marking the fifth consecutive year of double-digit growth in supplier diversity spending.

In the United States, our Diversity and Inclusion Networks promote a culture where everyone feels they have an equal opportunity to contribute and succeed. Each of our U.S. groups is represented at senior levels by an executive reporting directly to the chief executive officer. The groups include African Americans, Latinos/Hispanics, Asians, Native Americans, Women, Gay/Lesbian/Bisexual/Transgender, Women of Color, Support Team/Non-exempt and EnAble, for individuals with different abilities. In 2007, we added a group dedicated to

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ensuring that white males are included as an integral part of our diversity and inclusion journey. In that same year, diversity and inclusion councils were successfully established in all four continents of our PepsiCo International business — focusing on delivering locally relevant, regional diversity and inclusion strategies and plans.

In January 2007, we initiated the Steve Reinemund Diversity and Inclusion Leadership Legacy Award to honor leaders who champion diversity and inclusion over time. The award, named for our former chairman, who was a relentless champion for diversity, is presented to leaders who move PepsiCo to new levels of diversity and inclusion accomplishments and behaviors. This award is in addition to the Harvey C. Russell Inclusion Award, introduced in 2003, which is presented to associates at all levels of the business in recognition of their distinctive achievements in diversity and inclusion. The award is named after Harvey C. Russell, who broke America's color barrier when he became a vice president of PepsiCo in 1962 — the first African American executive at a Fortune 500 company.

*Filmed entirely in American Sign Language, the "Bob's House" commercial was inspired by EnAble's mission to make PepsiCo the employer of choice, partner of choice and brand of choice for people with different abilities. Response was overwhelming with nearly 850,000 views on video-sharing sites before it aired, a host of "thank you" videos posted on YouTube by the deaf community and mentions in over 3,000 blogs after it aired.*

*Pictured left to right: "Bob's House" creator, Clay Broussard, Project Manager, PepsiCo Customer Supply Chain & Logistics; co-stars, Brian Dowling, Warehouse II, Frito-Lay North America, Sheri Christianson, Sr. Specialist and Development Team Lead, PB&G; and Darren Theriault, Application Configuration Specialist, Project One Up, PepsiCo Chicago*

Today that spirit is alive and well, inspiring PepsiCo's diverse and innovative workforce to contribute their best thinking in taking diversity and inclusion to the next level — while continuing to bring their insights to delivering innovative products for our consumers, retail customers, and the broad range of constituents we serve. An EnAble team demonstrated that spirit recently by producing and starring in "Bob's House," a silent but attention-getting television commercial that appeared on the FOX network's pre-game show for Super Bowl XLII.

### Sharpening Our Focus on Employee Learning and Development

Everyone at PepsiCo, from our newest associates to seasoned senior managers, has a responsibility to continue his or her own development journey by improving both personal and professional effectiveness. In 2008, with the launch of PepsiCo University, we will help

associates continue developing the job-related and management skills that are needed to drive innovation and growth for the future.

Also beginning in 2008, we will align our 360-degree feedback process with the PepsiCo Leadership and Individual Effectiveness Model to make it more robust and ensure that leaders know and understand what's expected of them. As a new and significantly valuable addition, we will combine the 360-degree process with other feedback tools to further build self-awareness and provide participants with rich, one-on-one developmental feedback from trained and certified facilitators.

*"The commercial provided consumers with a true glimpse into the real culture of PepsiCo, because when we talk about diversity and inclusion it is not just lip service, it is part of our belief and core."  
— Clay Broussard, creator, "Bob's House" commercial*



## Ethnic Advisory Boards

Our Ethnic Advisory Boards provide management with external viewpoints on issues related to diversity and inclusion, especially in the U.S. marketplace.

### African American Advisory Board



1 Keith Clinkscles  
Senior Vice President,  
Content Development  
and Enterprises, ESPN  
Publishing

3 Amy Hilliard  
President and Chief  
Executive Officer,  
The Hilliard Group &  
The ComfortCake Co.

6 Roderick D. Gillum  
Vice President,  
Corporate  
Responsibility  
and Diversity, General  
Motors Corporation  
Chairman,  
GM Foundation

2 Jerri DeVard  
Former Senior  
Vice President,  
Brand Management  
and Marketing  
Communications,  
Verizon  
Communications

4 Robert Holland  
Partner,  
Cordova, Smart and  
Williams, LLC

7 Earl G. Graves, Jr.  
President and CEO,  
Black Enterprise  
Magazine

5 Reverend Dr. Franklyn  
Richardson  
Senior Pastor,  
Grace Baptist Church

8 Glenda McNeal  
Senior Vice President  
Global Partnerships,  
American Express

*"Since PepsiCo's African American Advisory Board was formed in 1999, our members have provided valuable counsel to the company on a range of issues including reaching a more diverse consumer base, creating a more diverse workforce and strengthening its relationship with the community. We are pleased with the results. During our years of involvement, PepsiCo has increased the number of minorities in its management ranks and increased spending with minority-owned businesses."*

*— Benaree Pratt Wiley, Principal, The Wiley Group, Chairman of the Advisory Board*

### Latino/Hispanic Advisory Board



1 Dr. Carlos H. Arce, Ph.D.  
President and Founder,  
NuStats

4 Carlos A. Saladrigas  
Chairman,  
Premier American Bank

7 Cid Wilson  
Director of Equity  
Research,  
Kevin Dann and  
Partners LLC

2 Maria Contreras-Sweet  
Chairwoman,  
Promerica Bank

5 Deborah Rosado Shaw  
Partner,  
Multi-ethnic Success  
Ventures, LLC

Roger Rivera  
President and Founder,  
National Hispanic  
Environmental Council  
(Not pictured,  
Joined 2008)

3 Dr. Douglas X. Patiño  
Vice Chancellor Emeritus  
and Professor,  
California State  
University

6 Isabel Valdés  
Consultant, Author,  
Public Speaker

*"As a founding member of the PepsiCo Latino/Hispanic Advisory Board, I am honored to represent a group that provides the company with diverse points of view, which benefit consumers, PepsiCo and the communities in which it operates. These perspectives influence new products and marketing. We also provide insights to assist retailers with the effective planning of promotional outreach, product mix and support of healthier lifestyles. Because so much change is occurring in demographic mix and in lifestyle trends, our input helps to ensure that the tastes of consumers are met and that diverse talent is identified for employment opportunities."*

*— Raúl Yzaguirre, Presidential Professor, Center for Community Development and Civil Rights, Arizona State University, Chairman of the Advisory Board*



# PepsiCo Board of Directors

## 2 Dina Dublon

Consultant, Former Executive Vice President and Chief Financial Officer JPMorgan Chase & Co.  
54. Elected 2005.

## 3 Victor J. Dzau, M.D.

Chancellor for Health Affairs Duke University and President & CEO Duke University Health Systems  
62. Elected 2005.

## 5 Ray L. Hunt

Chief Executive Officer Hunt Oil Company and Chairman, Chief Executive Officer and President Hunt Consolidated, Inc.  
64. Elected 1996.

## 7 Alberto Ibargüen

President and Chief Executive Officer John S. and James L. Knight Foundation  
64. Elected 2005.

## 9 Arthur C. Martinez

Former Chairman of the Board, President and Chief Executive Officer Sears, Roebuck and Co.  
68. Elected 1999.

## 10 Indra K. Nooyi

Chairman of the Board and Chief Executive Officer PepsiCo  
52. Elected 2001.

## 6 Sharon Percy Rockefeller

President and Chief Executive Officer WETA Public Stations  
63. Elected 1986.

## 1 James J. Schiro

Chief Executive Officer Zurich Financial Services  
62. Elected 2003.

## 8 Daniel Vasella

Chairman of the Board and Chief Executive Officer Novartis AG  
54. Elected 2002.

## 4 Michael D. White

Chief Executive Officer PepsiCo International Vice Chairman PepsiCo  
56. Elected 2006.

*Listings include age and year elected as a PepsiCo director.*

## Welcome New Board Members

PepsiCo is pleased to welcome two new members to our Board of Directors. Ian M. Cook and Lloyd G. Trotter have joined the board, effective March 14, 2008. They will bring a breadth of experience and knowledge to PepsiCo and its communities.

Ian Cook, 55, is presently president and chief executive officer of Colgate-Palmolive Company, one of the world's oldest and most respected consumer products companies. He joined Colgate in 1976 and progressed through marketing and other management roles in the United Kingdom, the United States and the Philippines until he became CEO in July 2007.



Ian Cook

Lloyd Trotter, 61, recently retired from his post as vice chairman of GE, after a 37-year career there. He has joined the New York-based investment firm of GenNx360 Capital Partners as one of the principals. The firm intends to focus on investments in commercial security, industrial water treatment, infrastructure and aerospace.



Lloyd Trotter





# Corporate Information

## Executive Offices PepsiCo, Inc.

700 Anderson Hill Road  
Purchase, NY 10577  
914-253-2000

## Co-founder of PepsiCo

**Donald M. Kendall**

## Executive Officers\*

### **Indra K. Nooyi**

Chairman of the Board and  
Chief Executive Officer

### **Peter A. Bridgman**

Senior Vice President and Controller

### **Albert P. Carey**

President and Chief Executive Officer  
Frito-Lay North America

### **John C. Compton**

Chief Executive Officer  
PepsiCo Americas Foods

### **Massimo F. d'Amore**

Chief Executive Officer  
PepsiCo Americas Beverages

### **Richard Goodman**

Chief Financial Officer

### **Hugh Johnston**

President  
Pepsi-Cola North America

### **Lionel L. Nowell III**

Senior Vice President and Treasurer

### **Larry D. Thompson**

Senior Vice President, Government  
Affairs, General Counsel and Secretary

### **Cynthia M. Trudell**

Senior Vice President  
PepsiCo Human Resources

### **Michael D. White**

Chief Executive Officer  
PepsiCo International  
Vice Chairman, PepsiCo

\* *PepsiCo Officers subject to Section 16 of the Securities and Exchange Act of 1934. For a complete list of the PepsiCo Executive Committee, please see page 11.*

## Values

Our commitment is to deliver sustained growth, through empowered people, acting with responsibility and building trust.



## Mission

We aspire to make PepsiCo the world's premier consumer products company, focused on convenient foods and beverages. We seek to produce healthy financial rewards to investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate. And in everything we do, we strive to act with honesty, openness, fairness and integrity.

## Primary Websites

PepsiCo, Inc. — [www.pepsico.com](http://www.pepsico.com)  
Frito-Lay North America — [www.fritolay.com](http://www.fritolay.com)  
Pepsi-Cola North America — [www.pepsi.com](http://www.pepsi.com)  
Tropicana North America — [www.tropicana.com](http://www.tropicana.com)  
Quaker Foods — [www.quakeroats.com](http://www.quakeroats.com)  
Gatorade — [www.gatorade.com](http://www.gatorade.com)  
Smart Spot — [www.smartspot.com](http://www.smartspot.com)

When market or market share are referred to in this report, the markets and share are defined by the sources of the information, primarily Information Resources, Inc. and ACNielsen. The Measured Channel Information excludes Wal-Mart and Sam's, as Wal-Mart and Sam's do not report volume to these services.

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**Mixed Sources**

Product group from well-managed  
forests and other controlled sources

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# OUR BUSINESS

Our discussion and analysis is an integral part of understanding our financial results. Definitions of key terms can be found in the glossary on page 86. Tabular dollars are presented in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

## Our Operations

We are a leading global snack and beverage company. We manufacture, market and sell a variety of salty, convenient, sweet and grain-based snacks, carbonated and non-carbonated beverages and foods.

Our commitment to sustainable growth, defined as Performance with Purpose, is focused on generating healthy financial returns while giving back to the com-

Our commitment to sustainable growth, defined as Performance with Purpose, is focused on generating healthy financial returns while giving back to the communities we serve.

munities we serve. This includes meeting consumer needs for a spectrum of convenient foods and beverages, reducing our impact on the environment through water, energy and packaging initiatives, and supporting our employees through a diverse and inclusive culture that recruits and retains world-class talent. In September 2007, we were again included on the Dow Jones Sustainability North America Index and were also added to the Dow Jones Sustainability World Index. These lists are compiled annually.

We are organized into four divisions:

- Frito-Lay North America,
- PepsiCo Beverages North America,
- PepsiCo International, and
- Quaker Foods North America.

Our North American divisions operate in the U.S. and Canada. Our international

division sells products in approximately 200 countries, with our largest operations in Mexico and the United Kingdom. Additional information concerning our divisions and geographic areas is presented in Note 1.

### Frito-Lay North America

Frito-Lay North America (FLNA) manufactures or uses contract manufacturers, markets, sells and distributes branded snacks. These snacks include Lay's potato chips, Doritos tortilla chips, Tostitos tortilla chips, Cheetos cheese flavored snacks, branded dips, Fritos corn chips, Ruffles potato chips, Quaker Chewy granola bars, SunChips multigrain snacks, Rold Gold pretzels, Santitas tortilla chips, Grandma's cookies, Frito-Lay nuts, Munchies snack mix, Gamesa cookies, Funyuns onion flavored rings, Quaker Quakes corn and rice snacks, Miss Vickie's potato chips, Stacy's pita chips, Smartfood popcorn, Chester's fries, branded crackers and Flat Earth crisps. FLNA branded products are sold to independent distributors and retailers.

### PepsiCo Beverages North America

PepsiCo Beverages North America (PBNA) manufactures or uses contract manufacturers, markets and sells beverage concentrates, fountain syrups and finished goods, under various beverage brands including Pepsi, Mountain Dew, Gatorade, Tropicana Pure Premium, Sierra Mist, Propel, Tropicana juice drinks, Dole, SoBe Life Water, Naked juice and Izze. PBNA also manufactures or uses contract manufacturers, markets and sells ready-to-drink

tea, coffee and water products through joint ventures with Unilever (under the Lipton brand name) and Starbucks. In addition, PBNA licenses the Aquafina water brand to its bottlers and markets this brand. PBNA sells concentrate and finished goods for some of these brands to authorized bottlers, and some of these branded products are sold directly by us to independent distributors and retailers. The bottlers sell our brands as finished goods to independent distributors and retailers. PBNA's volume reflects sales to its independent distributors and retailers, as well as the sales of beverages bearing our trademarks that bottlers have reported as sold to independent distributors and retailers. Bottler case sales (BCS) and concentrate shipments and equivalents (CSE) are not necessarily equal during any given period due to seasonality, timing of product launches, product mix, bottler inventory practices and other factors. While our revenues are not based on BCS volume, we believe that BCS is a valuable measure as it measures the sell-through of our products at the consumer level.

### PepsiCo International<sup>1</sup>

PepsiCo International (PI) manufactures through consolidated businesses as well as through noncontrolled affiliates, a number of leading salty and sweet snack brands including Gamesa, Lay's, Doritos, Walkers, Cheetos, Ruffles and Sabritas. Further, PI manufactures or uses contract manufacturers, markets and sells many



Quaker brand cereals and snacks. PI also manufactures, markets and sells beverage concentrates, fountain syrups and finished goods under the brands Pepsi, 7UP, Mirinda, Mountain Dew, Gatorade and Tropicana. These brands are sold to authorized bottlers, independent distributors and retailers. However, in certain markets, PI operates its own bottling plants and distribution facilities. PI also manufactures or uses contract manufacturers, markets and sells ready-to-drink tea products through a joint venture with Unilever (under the Lipton brand name). In addition, PI licenses the Aquafina water brand to certain of its authorized bottlers. PI reports two measures of volume. Snack volume is reported on a system-wide basis, which includes our own sales and the sales by our noncontrolled affiliates of snacks bearing Company-owned or licensed trademarks. Beverage volume reflects Company-owned or authorized bottler sales of beverages bearing Company-owned or licensed trademarks to independent distributors and retailers. BCS and CSE are not necessarily equal during any given period due to seasonality, timing of product launches, product mix, bottler inventory practices and other factors. While

our revenues are not based on BCS volume, we believe that BCS is a valuable measure as it measures the sell-through of our products at the consumer level.

### Quaker Foods North America

Quaker Foods North America (QFNA) manufactures or uses contract manufacturers, markets and sells cereals, rice, pasta and other branded products. QFNA's products include Quaker oatmeal, Aunt Jemima mixes and syrups, Life cereal, Cap'n Crunch cereal, Quaker grits, Rice-A-Roni, Pasta Roni and Near East side dishes. These branded products are sold to independent distributors and retailers.

### New Organizational Structure

In the fourth quarter of 2007, we announced a strategic realignment of our organizational structure into three new business units, as follows:

(1) PepsiCo Americas Foods (PAF), which includes FLNA, QFNA and all of our Latin American food and snack businesses (LAF), including our Sabritas and Gamesa businesses in Mexico;

(2) PepsiCo Americas Beverages (PAB), which includes PBNA and all of our Latin American beverage businesses; and

(3) PepsiCo International (PI), which includes all PepsiCo businesses in the United Kingdom, Europe, Asia, Middle East and Africa.

In the fourth quarter of 2007, we announced a strategic realignment of our organizational structure into three new business units: PAF, PAB and PI.

In 2008, our three business units will be comprised of six reportable segments, as follows:

- FLNA,
- QFNA,
- LAF,
- PAB,
- United Kingdom & Europe, and
- Middle East, Africa & Asia.

In the first quarter of 2008, our historical segment reporting will be restated to reflect the new structure. The segment amounts and discussions reflected in this annual report reflect the management reporting that existed through fiscal year-end 2007.

## Our Customers

Our customers include authorized bottlers and independent distributors, including foodservice distributors, and retailers. We normally grant our bottlers exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographic area. These arrangements provide the Company with the right to charge our bottlers for concentrate, finished goods and Aquafina royalties and specify the manufacturing process required for product quality.

Since we do not sell directly to the consumer, we rely on and provide financial incentives to our customers to assist in the distribution and promotion of our products. For our independent distributors and retailers, these incentives include

volume-based rebates, product placement fees, promotions and displays. For our bottlers, these incentives are referred to as bottler funding and are negotiated annually with each bottler to support a variety of trade and consumer programs, such as consumer incentives, advertising support, new product support, and vending and cooler equipment placement. Consumer incentives include coupons, pricing discounts and promotions, and other promotional offers. Advertising support is directed at advertising programs and supporting bottler media. New product support includes targeted consumer and retailer incentives and direct marketplace support, such as point-of-purchase materials, product placement fees, media and

advertising. Vending and cooler equipment placement programs support the acquisition and placement of vending machines and cooler equipment. The nature and type of programs vary annually.

Retail consolidation continues to increase the importance of major customers. In 2007, sales to Wal-Mart Stores, Inc. (Wal-Mart), including Sam's Club (Sam's), represented approximately 12% of our total net revenue. Our top five retail customers represented approximately 31% of our 2007 North American net revenue, with Wal-Mart (including Sam's) representing approximately 18%. These percentages include concentrate sales to our bottlers which are used in finished

goods sold by them to these retailers. In addition, sales to The Pepsi Bottling Group (PBG) represented approximately 9% of our total net revenue. See "Our Related Party Bottlers" and Note 8 for more information on our anchor bottlers.

### Our Related Party Bottlers

We have ownership interests in certain of our bottlers. Our ownership is less than 50%, and since we do not control these bottlers, we do not consolidate their results. We include our share of their

net income based on our percentage of economic ownership in our income statement as bottling equity income. We have designated three related party bottlers, PBG, PepsiAmericas, Inc. (PAS)

Our anchor bottlers distribute approximately 58% of our North American beverage volume and approximately 18% of our international beverage volume.

and Pepsi Bottling Ventures LLC (PBV), as our anchor bottlers. Our anchor bottlers distribute approximately 58% of our North American beverage volume and approximately 18% of our international beverage volume. Our anchor bottlers participate in the bottler funding programs described above. Approximately 6% of our total 2007 sales incentives are related to these bottlers. See Note 8 for additional information on these related parties and related party commitments and guarantees.

## Our Distribution Network

Our products are brought to market through direct-store-delivery (DSD), broker-warehouse and foodservice and vending distribution networks. The distribution system used depends on customer needs, product characteristics and local trade practices.

### Direct-Store-Delivery

We, our bottlers and our distributors operate DSD systems that deliver snacks and beverages directly to retail stores where the products are merchandised by our employees or our bottlers. DSD enables us to merchandise with maximum

visibility and appeal. DSD is especially well-suited to products that are restocked often and respond to in-store promotion and merchandising.

DSD enables us to merchandise with maximum visibility and appeal.

### Broker-Warehouse

Some of our products are delivered from our manufacturing plants and warehouses to customer warehouses and retail stores. These less costly systems generally work

best for products that are less fragile and perishable, have lower turnover, and are less likely to be impulse purchases.

### Foodservice and Vending

Our foodservice and vending sales force distributes snacks, foods and beverages to third-party foodservice and vending distributors and operators. Our foodservice and vending sales force also distributes certain beverages through our bottlers. This distribution system supplies our products to schools, businesses, stadiums, restaurants and similar locations.

## Our Competition

Our businesses operate in highly competitive markets. We compete against global, regional, local and private label manufacturers on the basis of price, quality, product variety and distribution. In U.S. measured channels, we have a similar share of CSD consumption and a larger share of liquid refreshment beverages consumption, as compared to our chief beverage competitor, The Coca-

Cola Company. However, The Coca-Cola Company has a significant CSD share advantage in many markets outside the U.S. Further, our snack brands hold significant leadership positions in the snack industry worldwide. Our snack brands face local and regional competitors, as well as national and global snack competitors, and compete on the basis of price, quality, product variety and distribution.

Success in this competitive environment is dependent on effective promotion of existing products and the introduction of new products. We believe that the strength of our brands, innovation and marketing, coupled with the quality of our products and flexibility of our distribution network, allow us to compete effectively.



## Other Relationships

Certain members of our Board of Directors also serve on the boards of certain vendors and customers. Those Board members do not participate in our vendor selection and negotiations nor in

our customer negotiations. Our transactions with these vendors and customers are in the normal course of business and are consistent with terms negotiated with other vendors and customers. In addition,

certain of our employees serve on the boards of our anchor bottlers and other affiliated companies and do not receive incremental compensation for their Board services.

## Our Business Risks

*Demand for our products may be adversely affected by changes in consumer preferences and tastes or if we are unable to innovate or market our products effectively.*

We are a consumer products company operating in highly competitive markets and rely on continued demand for our products. To generate revenues and profits, we must sell products that appeal to our customers and to consumers. Any significant changes in consumer preferences and any inability on our part to anticipate and react to such changes could result in reduced demand for our products and erosion of our competitive and financial position. Our success depends on our ability to respond to consumer trends, such as consumer health concerns about obesity, product attributes and ingredients. In addition, changes in product category consumption or consumer demographics could result in reduced demand for our products. Consumer preferences may shift due to a variety of factors, including the aging of the general population, changes in social trends, changes in travel, vacation or leisure activity patterns, weather, negative publicity resulting from regulatory action or litigation against companies in the industry, or a downturn in economic conditions. Any of these changes may reduce consumers' willingness to purchase our products. See also "Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation" below.

Our continued success is also dependent on our product innovation, including maintaining a robust pipeline of new products, and the effectiveness of our advertising campaigns and marketing programs. There can be no assurance as to our continued ability either to develop and launch successful new products or variants of existing products, or to effectively execute advertising campaigns and marketing programs. In addition, both the launch and ongoing success of new products and advertising campaigns are inherently uncertain, especially as to their appeal to consumers. Our failure to successfully launch new products could decrease demand for our existing products by negatively affecting consumer perception of existing brands, as well as result in inventory write-offs and other costs.

Our success depends on our ability to respond to consumer trends, such as consumer health concerns about obesity, product attributes and ingredients.

*Any damage to our reputation could have an adverse effect on our business, financial condition and results of operations.*

Maintaining a good reputation globally is critical to selling our branded products. If we fail to maintain high standards for product quality, safety and integrity, our reputation could be jeopardized. Adverse publicity about these types of concerns or the incidence of product contamination

or tampering, whether or not valid, may reduce demand for our products or cause production and delivery disruptions. If any of our products becomes unfit for consumption, misbranded or causes injury, we may have to engage in a product recall and/or be subject to liability. A widespread product recall or a significant product liability judgment could cause our products to be unavailable for a period of time, which could further reduce consumer demand and brand equity. Failure to maintain high ethical, social and environmental standards for all of our operations and activities or adverse publicity regarding our responses to health concerns, our environmental impacts, including agricultural materials, packaging, energy and water use and waste management, or other sustainability issues, could jeopardize our reputation. Failure to comply with local laws and regulations, to maintain an effective system of internal controls or to provide accurate and timely financial statement information could also hurt our reputation. Damage to our reputation or loss of consumer confidence in our products for any of these reasons could have a material adverse effect on our business, financial condition and results of operations, as well as require additional resources to rebuild our reputation.



*If we are not able to build and sustain proper information technology infrastructure, successfully implement our ongoing business transformation initiative or outsource certain functions effectively our business could suffer.*

We depend on information technology as an enabler to improve the effectiveness of our operations and to interface with our customers, as well as to maintain financial accuracy and efficiency. If we do not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure, we could be subject to transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of or damage to intellectual property through security breach.

We have embarked on a multi-year business transformation initiative that includes the delivery of an SAP enterprise

We depend on information technology as an enabler to improve the effectiveness of our operations and to interface with our customers.

resource planning application, as well as the migration to common business processes across our operations. There can be no certainty that these programs will deliver the expected benefits. The failure to deliver our goals may impact our ability to (1) process transactions accurately and efficiently and (2) remain in step with the changing needs of the trade, which could result in the loss of customers. In addition, the failure to either deliver the application on time, or anticipate the necessary readiness and training needs, could lead to business disruption and loss of customers and revenue.

In addition, we have outsourced certain information technology support services and administrative functions, such as payroll processing and benefit plan administration, to third-party service providers and may outsource other functions

in the future to achieve cost savings and efficiencies. If the service providers that we outsource these functions to do not perform effectively, we may not be able to achieve the expected cost savings and may have to incur additional costs to correct errors made by such service providers. Depending on the function involved, such errors may also lead to business disruption, processing inefficiencies or the loss of or damage to intellectual property through security breach, or harm employee morale.

Our information systems could also be penetrated by outside parties intent on extracting information, corrupting information or disrupting business processes. Such unauthorized access could disrupt our business and could result in the loss of assets.

*Our operating results may be adversely affected by increased costs, disruption of supply or shortages of raw materials and other supplies.*

We and our business partners use various raw materials and other supplies in our business, including aspartame, cocoa, corn, corn sweeteners, flavorings, flour, grapefruits and other fruits, juice and juice concentrates, oats, oranges, potatoes, rice, seasonings, sucralose, sugar, vegetable and essential oils, and wheat. Our key packaging materials include PET resin used for plastic bottles, film packaging used for snack foods, aluminum used for cans, glass bottles and cardboard. Fuel and natural gas are also important commodities due to their use in our plants and in the trucks delivering our products. Some of these raw materials and supplies are available from a limited number of suppliers. We are exposed to the market risks arising from adverse changes in commodity prices, affecting the cost of our raw materials and energy. The raw materials and energy which we use for the production of our products are largely commodities that are subject to price volatility and fluctuations in availability caused by changes in global supply and demand, weather conditions, agricultural

uncertainty or governmental controls. We purchase these materials and energy mainly in the open market. If commodity price changes result in unexpected increases in raw materials and energy costs, we may not be able to increase our prices to offset these increased costs without suffering reduced volume, revenue and operating income.

Our profitability may also be adversely impacted due to water scarcity and regulation. Water is a limited resource in many parts of the world. As demand for water continues to increase, we and our business partners may face disruption of supply or increased costs to obtain the water needed to produce our products.

*Our business could suffer if we are unable to compete effectively.*

Our businesses operate in highly competitive markets. We compete against global, regional and private label manufacturers on the basis of price, quality, product variety and effective distribution. Increased competition and actions by our competitors could lead to downward pressure on prices and/or a decline in our market share, either of which could adversely affect our results. See "Our Competition" for more information about our competitors.

*Disruption of our supply chain could have an adverse effect on our business, financial condition and results of operations.*

Our ability and that of our suppliers, business partners, including bottlers, contract manufacturers, independent distributors and retailers, to make, move and sell products is critical to our success. Damage or disruption to our or their manufacturing or distribution capabilities due to weather, natural disaster, fire or explosion, terrorism, pandemics such as avian flu, strikes or other reasons, could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, could adversely affect our business, financial condition

and results of operations, as well as require additional resources to restore our supply chain.

*Trade consolidation, the loss of any key customer, or failure to maintain good relationships with our bottling partners could adversely affect our financial performance.*

We must maintain mutually beneficial relationships with our key customers, including our retailers and bottling partners, to effectively compete. There is a greater concentration of our customer base around the world generally due to the continued consolidation of retail trade. As retail ownership becomes more concentrated, retailers demand lower pricing and increased promotional programs. Further, as larger retailers increase utilization of their own distribution networks and private label brands, the competitive advantages we derive from our go-to-market systems and brand equity may be eroded. Failure to appropriately respond to these trends or to offer effective sales incentives and marketing programs to our customers could reduce our ability to secure adequate shelf space at our retailers and adversely affect our financial performance.

Retail consolidation continues to increase the importance of major customers. In 2007, sales to Wal-Mart (including Sam's) represented approximately 12% of our total net revenue. Our top five retail customers represented approximately 31% of our 2007 North American net revenue, with Wal-Mart (including Sam's) representing approximately 18%. These percentages include concentrate sales to our bottlers which are used in finished goods sold by them to these retailers. Loss of any of our key customers, including Wal-Mart, could have an adverse effect on our business, financial condition and results of operations.

Furthermore, if we are unable to provide an appropriate mix of incentives to our bottlers through a combination of advertising and marketing support, they may take actions that, while maximizing

their own short-term profit, may be detrimental to us or our brands. Such actions could have an adverse effect on our profitability. In addition, any deterioration of our relationships with our bottlers could adversely affect our business or financial performance. See "Our Customers," "Our Related Party Bottlers" and Note 8 for more information on our customers, including our anchor bottlers.

*Changes in the legal and regulatory environment could limit our business activities, increase our operating costs, reduce demand for our products or result in litigation.*

The conduct of our businesses, and the production, distribution, sale, advertising, labeling, safety, transportation and use of many of our products, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States, as well as to foreign laws and regulations administered by government entities and agencies in markets in which we operate. These laws and regulations may change, sometimes dramatically, as a result of political, economic or social events. Such regulatory environment changes include changes in food and drug laws, laws related to advertising and deceptive marketing practices, accounting standards, taxation requirements, competition laws and environmental laws, including laws relating to the regulation of water rights and treatment. Changes in laws, regulations or governmental policy and the related interpretations may alter the environment in which we do business and, therefore, may impact our results or increase our costs or liabilities.

In particular, governmental bodies in jurisdictions where we operate may impose new labeling, product or production requirements, or other restrictions. For example, we are one of several companies that have been sued by the State of California under Proposition 65 to force warnings that certain potato-based products contain acrylamide. Acrylamide is a chemical compound naturally formed

in a wide variety of foods when they are cooked (whether commercially or at home), including french fries, potato chips, cereal, bread and coffee. It is believed that acrylamide may cause cancer in laboratory animals when consumed in significant amounts. Studies are underway by various regulatory authorities and others to assess the effect on humans due to acrylamide in the diet. If we were required to label any of our products or place warnings in locations where our products are sold in California under Proposition 65, sales of those products could suffer not only in California but elsewhere. In addition, if consumer concerns about acrylamide increase as a result of these studies, other new scientific evidence, or for any other reason, whether or not valid, demand for our products could decline and we could be subject to additional lawsuits or new regulations that could affect sales of our products, any of which could have an adverse effect on our business, financial condition or results of operations.

In many jurisdictions, compliance with competition laws is of special importance to us due to our competitive position in those jurisdictions. Regulatory authorities under whose laws we operate may also have enforcement powers that can subject us to actions such as product recall, seizure of products or other sanctions, which could have an adverse effect on our sales or damage our reputation.

*If we are unable to hire or retain key employees, it could have a negative impact on our business.*

Our continued growth requires us to develop our leadership bench and to implement programs, such as our long-term incentive program, designed to retain talent. However, there is no assurance that we will continue to be able to hire or retain key employees. We compete to hire new employees, and then must train them and develop their skills and competencies. Our operating results could be adversely affected by increased costs due to increased competition for employees, higher employee turnover or



increased employee benefit costs. Any unplanned turnover could deplete our institutional knowledge base and erode our competitive advantage.

Our continued growth requires us to develop our leadership bench and to implement programs, such as our long-term incentive program, designed to retain talent.

*Our business may be adversely impacted by unfavorable economic or environmental conditions or political or other developments and risks in the countries in which we operate.*

Unfavorable global economic or environmental changes, political conditions or other developments may result in business disruption, supply constraints, foreign currency devaluation, inflation, deflation or decreased demand. Unstable economic and political conditions or civil unrest in the countries in which we operate could

have adverse impacts on our business results or financial condition. Our operations outside of the U.S. accounted for 44% and 35% of our net revenue and operating profit, respectively, for the year ended December 29, 2007. Our continued success depends on our ability to broaden and strengthen our presence in emerging markets, such as Brazil, Russia, India and China, and to create scale in key international markets.

Our continued success depends on our ability to broaden and strengthen our presence in emerging markets, such as Brazil, Russia, India and China.

## Forward-Looking and Cautionary Statements

We discuss expectations regarding our future performance, such as our business outlook, in our annual and quarterly reports, press releases, and other written and oral statements. These “forward-looking statements” are based on currently available information, operating plans and projections about future events and trends. They inherently involve risks and uncertainties that could cause actual results to differ materially from those predicted in any such forward-looking statements. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise. The discussion of risks above and elsewhere in this annual report is by no means all inclusive but is designed to highlight what we believe are important factors to consider when evaluating our trends and future results.

## Market Risks

We are exposed to market risks arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and energy,
- foreign exchange rates, and
- interest rates.

In the normal course of business, we manage these risks through a variety of strategies, including productivity initiatives, global purchasing programs and hedging strategies. Ongoing productivity initiatives involve the identification and effective implementation of meaningful cost saving opportunities or efficiencies. Our global purchasing programs include fixed-price purchase orders and pricing

agreements. Our hedging strategies include the use of derivatives. Certain

We manage market risks through a variety of strategies, including productivity initiatives, global purchasing programs and hedging strategies.

derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. We do not use derivative instruments for trading or speculative purposes, and we limit our exposure to individual counterparties to manage credit risk. The fair value of our derivatives fluctuates based on market rates and prices. The sensitivity of our derivatives to these market fluctuations is discussed below. See Note 10 for further discussion of these derivatives and our hedging policies. See “Our Critical Accounting Policies” for a discussion of the exposure of our pension plan assets and pension and retiree medical liabilities to risks related to stock prices and discount rates.

Inflationary, deflationary and recessionary conditions impacting these market risks also impact the demand for and pricing of our products.



## Commodity Prices

Our open commodity derivative contracts that qualify for hedge accounting had a face value of \$5 million at December 29, 2007 and \$55 million at December 30, 2006. The open derivative contracts that qualify for hedge accounting resulted in net unrealized gains of less than \$1 million at December 29, 2007 and December 30, 2006. We estimate that a 10% decline in commodity prices would have had no impact on our net unrealized gains in 2007.

Our open commodity derivative contracts that do not qualify for hedge accounting had a face value of \$105 million at December 29, 2007 and \$196 million at December 30, 2006. The open derivative contracts that do not qualify for hedge accounting resulted in net gains of \$3 million in 2007 and net losses of \$28 million in 2006. We estimate that a 10% decline in commodity prices would have had no impact on our net gains in 2007.

We expect to be able to continue to reduce the impact of increases in our raw material and energy costs through our hedging strategies and ongoing productivity initiatives.

## Foreign Exchange

Financial statements of foreign subsidiaries are translated into U.S. dollars using period-end exchange rates for assets and liabilities and weighted-average exchange rates for revenues and expenses. Adjustments resulting from translating net assets are reported as a separate component of accumulated other comprehensive loss within shareholders' equity under the caption currency translation adjustment.

Our operations outside of the U.S. generate 44% of our net revenue, with Mexico, the United Kingdom and Canada comprising 19% of our net revenue. As a result, we are exposed to foreign currency risks. During 2007, net favorable foreign currency, primarily due to appreciation in the euro, British pound, Canadian dollar and Brazilian real, contributed 2 percentage points to net revenue growth. Currency declines which are not offset could adversely impact our future results.

Exchange rate gains or losses related to foreign currency transactions are recognized as transaction gains or losses in our income statement as incurred. We may enter into derivatives to manage our exposure to foreign currency transaction risk. Our foreign currency derivatives had a total face value of \$1.6 billion at December 29, 2007 and \$1.0 billion at December 30, 2006. The contracts that qualify for hedge accounting resulted in net unrealized losses of \$44 million at December 29, 2007 and \$6 million at December 30, 2006. We estimate that an unfavorable 10% change in the exchange rates would have resulted in net unrealized losses of \$152 million in 2007. The contracts not meeting the criteria for hedge accounting resulted in a net gain of \$15 million in 2007 and a net loss of \$10 million in 2006. All losses and gains were offset by changes in the underlying hedged items, resulting in no net material impact on earnings.

## Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We may use interest rate and cross currency interest rate swaps to manage our overall interest expense and foreign exchange risk. These instruments effectively change the interest rate and currency of specific debt issuances. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt. Our counterparty credit risk is considered low because these swaps are entered into only with strong creditworthy counterparties and are generally settled on a net basis.

Assuming year-end 2007 variable rate debt and investment levels, a 1-percentage-point increase in interest rates would have decreased net interest expense by \$1 million in 2007.

## Risk Management Framework

The achievement of our strategic and operating objectives will necessarily involve taking risks. Our risk management

We leverage an integrated risk management framework to identify, assess, prioritize, manage, monitor and communicate risks across the Company.

process is intended to ensure that risks are taken knowingly and purposefully. As such, we leverage an integrated risk management framework to identify, assess, prioritize, manage, monitor and communicate risks across the Company. This framework includes:

- The PepsiCo Executive Committee (PEC), comprised of a cross-functional, geographically diverse, senior management group which identifies, assesses, prioritizes and addresses strategic and reputational risks;
- Division Risk Committees (DRCs), comprised of cross-functional senior management teams which meet regularly each year to identify, assess, prioritize and address division-specific operating risks;
- PepsiCo's Risk Management Office, which manages the overall risk management process, provides ongoing guidance, tools and analytical support to the PEC and the DRCs, identifies and assesses potential risks, and facilitates ongoing communication between the parties, as well as to PepsiCo's Audit Committee and Board of Directors;
- PepsiCo Corporate Audit, which evaluates the ongoing effectiveness of our key internal controls through periodic audit and review procedures; and
- PepsiCo's Compliance Office, which leads and coordinates our compliance policies and practices.

# OUR CRITICAL ACCOUNTING POLICIES

An appreciation of our critical accounting policies is necessary to understand our financial results. These policies may require management to make difficult and subjective judgments regarding uncertainties, and as a result, such estimates may significantly impact our financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. Other than our accounting for pension plans, our critical accounting policies do not involve the choice between alternative methods of accounting. We applied our critical accounting policies and estimation methods consistently in all material respects, and for all periods presented, and have discussed these policies with our Audit Committee.

Our critical accounting policies arise in conjunction with the following:

- revenue recognition,
- brand and goodwill valuations,
- income tax expense and accruals, and
- pension and retiree medical plans.

## Revenue Recognition

Our products are sold for cash or on credit terms. Our credit terms, which are established in accordance with local and industry practices, typically require payment within 30 days of delivery in the U.S., and generally within 30 to 90 days internationally, and may allow discounts for early payment. We recognize revenue upon shipment or delivery to our customers based on written sales terms that do not allow for a right of return. However, our policy for DSD and chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that consumers receive the product quality and freshness they expect. Similarly, our policy for warehouse-distributed products is to replace damaged and out-of-date products. Based on our historical experience with this practice, we have reserved for anticipated damaged and out-of-date products. Our bottlers have a similar replacement policy and are responsible for the products they distribute.

Our policy is to provide customers with product when needed. In fact, our

commitment to freshness and product dating serves to regulate the quantity of product shipped or delivered. In addition, DSD products are placed on the shelf by our employees with customer shelf space limiting the quantity of product. For product delivered through our other distribution networks, customer inventory levels are monitored.

Our policy for DSD and chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that consumers receive the product quality and freshness they expect.

As discussed in "Our Customers," we offer sales incentives and discounts through various programs to customers and consumers. Sales incentives and discounts are accounted for as a reduction of revenue and totaled \$11.3 billion in 2007,

\$10.1 billion in 2006 and \$8.9 billion in 2005. Sales incentives include payments to customers for performing merchandising activities on our behalf, such as payments for in-store displays, payments to gain distribution of new products, payments for shelf space and discounts to promote lower retail prices. A number of our sales incentives, such as bottle funding and customer volume rebates, are based on annual targets, and accruals are established during the year for the expected payout. These accruals are based on contract terms and our historical experience with similar programs and require management judgment with respect to estimating customer participation and performance levels. Differences between estimated expense and actual incentive costs are normally insignificant and are recognized in earnings in the period such differences are determined. The terms of most of our incentive arrangements do not exceed a year, and therefore do not require highly uncertain long-term estimates. For interim reporting, we estimate



total annual sales incentives for most of our programs and record a pro rata share in proportion to revenue. Certain arrangements, such as fountain pouring rights, may extend beyond one year. The costs incurred to obtain incentive arrangements are recognized over the shorter

of the economic or contractual life, as a reduction of revenue, and the remaining balances of \$287 million at year-end 2007 and \$297 million at year-end 2006 are included in current assets and other assets on our balance sheet.

We estimate and reserve for our bad debt exposure based on our experience with past due accounts. Bad debt expense is classified within selling, general and administrative expenses in our income statement.

## Brand and Goodwill Valuations

We sell products under a number of brand names, many of which were developed by us. The brand development costs are expensed as incurred. We also purchase brands in acquisitions. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including brands, based on estimated fair value, with any remaining purchase price recorded as goodwill. Determining fair value requires significant estimates and assumptions based on an evaluation of a number of factors, such as marketplace participants, product life cycles, market share, consumer awareness, brand history and future expansion expectations, amount and timing of future cash flows and the discount rate applied to the cash flows.

We believe that a brand has an indefinite life if it has a history of strong revenue and cash flow performance, and we have the intent and ability to support the brand with marketplace spending for the foreseeable future. If these perpetual brand criteria are not met, brands are

amortized over their expected useful lives, which generally range from five to 40 years. Determining the expected life of a brand requires management judgment and is based on an evaluation of a number of factors, including market share, consumer awareness, brand history and future expansion expectations, as well as the macroeconomic environment of the countries in which the brand is sold.

We did not recognize any impairment charges for perpetual brands or goodwill in the years presented.

Perpetual brands and goodwill, including the goodwill that is part of our non-controlled bottling investment balances, are not amortized. Perpetual brands and goodwill are assessed for impairment at least annually. If the carrying amount of a perpetual brand exceeds its fair value, as determined by its discounted cash flows, an impairment loss is recognized in an amount equal to that excess. Goodwill is evaluated using a two-step impairment test at the reporting unit level. A reporting unit can be a division or business within a division. The first step compares the book value of a reporting unit, including goodwill, with its fair value, as determined by its discounted cash flows. If the book value of a reporting unit exceeds its fair value, we complete the second step to determine the amount of goodwill

impairment loss that we should record. In the second step, we determine an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The amount of impairment loss is equal to the excess of the book value of the goodwill over the implied fair value of that goodwill.

Amortizable brands are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. If an evaluation of the undiscounted future cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on its discounted future cash flows.

Management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are based on the best available market information and are consistent with our internal forecasts and operating plans. These assumptions could be adversely impacted by certain of the risks discussed in "Our Business Risks."

We did not recognize any impairment charges for perpetual brands or goodwill in the years presented. As of December 29, 2007, we had \$6.4 billion of perpetual brands and goodwill, of which approximately 60% related to Tropicana and Walkers.

Determining the expected life of a brand requires management judgment and is based on an evaluation of a number of factors, including market share, consumer awareness, brand history and future expansion expectations, as well as the macroeconomic environment of the countries in which the brand is sold.



## Income Tax Expense and Accruals

Our annual tax rate is based on our income, statutory tax rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant judgment is required in determining our annual tax rate and in evaluating our tax positions. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions are subject to challenge and that we may not succeed. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances, such as the progress of a tax audit.

An estimated effective tax rate for a year is applied to our quarterly operating results. In the event there is a significant or unusual item recognized in our quarterly operating results, the tax attributable to that item is separately calculated and recorded at the same time as that item. We consider the tax adjustments from the resolution of prior year tax matters to be such items.

Tax law requires items to be included in our tax returns at different times than the items are reflected in our financial statements. As a result, our annual tax rate reflected in our financial statements is different than that reported in our

tax returns (our cash tax rate). Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences reverse over time, such as depreciation expense. These temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax returns in future years for which we have already recorded the tax benefit

We adopted the provisions of FIN 48 as of the beginning of our 2007 fiscal year.

in our income statement. We establish valuation allowances for our deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred, or expense for which we have already taken a deduction in our tax return but have not yet recognized as expense in our financial statements.

In 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. We adopted the provisions of FIN 48 as of the beginning of our 2007 fiscal year. As a result of our adoption of FIN 48, we recognized a \$7 million decrease to reserves for income taxes, with a corresponding increase to opening retained earnings. See Note 5 for additional information regarding our tax reserves and our adoption of FIN 48.

In 2007, our annual tax rate was 25.9% compared to 19.3% in 2006 as discussed in "Other Consolidated Results." The tax rate in 2007 increased 6.6 percentage points primarily reflecting an unfavorable comparison to the prior year's non-cash tax benefits. In 2008, our annual tax rate is expected to be 27.5%, primarily reflecting the absence of the non-cash tax benefits recorded in 2007.

## Pension and Retiree Medical Plans

Our pension plans cover full-time employees in the U.S. and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. and Canada retirees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements. Generally, our share of retiree medical costs is capped at specified dollar amounts that vary based upon years of service, with retirees contributing the remainder of the cost.

On December 30, 2006, we adopted SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158). In connection with our adoption, we recognized the funded status of our pension and retiree medical plans (our Plans) on our balance sheet as of December 30, 2006 with subsequent changes in the funded status recognized in comprehensive income in the years in which they occur. In accordance with SFAS 158, amounts prior to the year of adoption have not been adjusted. SFAS 158 also requires that, no later than 2008, our assumptions used to measure our annual pension and retiree medical expense be determined as of the balance sheet date, and all plan assets and liabilities be reported as of that date. Accordingly, as

balance sheet date. As a result of this change in measurement date, we will record an after-tax \$7 million reduction to 2008 opening shareholders' equity which will be reflected in our 2008 first quarter Form 10-Q. For further information regarding the impact of our adoption of SFAS 158, see Note 7.

### Our Assumptions

The determination of pension and retiree medical plan obligations and related expenses requires the use of assumptions to estimate the amount of the benefits that employees earn while working, as well as the present value of those benefits. Annual pension and retiree medical expense amounts are principally based on four components: (1) the value of benefits earned by employees for working during the year (service cost), (2) increase in the liability due to the passage of time (interest cost), and (3) other gains and losses as discussed below, reduced by (4) expected return on plan assets for our funded plans.

Significant assumptions used to measure our annual pension and retiree medical expense include:

- the interest rate used to determine the present value of liabilities (discount rate);
- certain employee-related factors, such as turnover, retirement age and mortality;
- for pension expense, the expected return on assets in our funded plans and the rate of salary increases for plans where benefits are based on earnings; and
- for retiree medical expense, health care cost trend rates.

Our assumptions reflect our historical experience and management's best judgment regarding future expectations. Due to the significant management judgment involved, our assumptions could have a material impact on the measurement of our pension and retiree medical benefit expenses and obligations.

At each measurement date, the discount rate is based on interest rates for high-quality, long-term corporate debt securities with maturities comparable to those of our liabilities. In the U.S., we use the Moody's Aa Corporate Bond Index yield (Moody's Aa Index) and adjust for differences between the average duration of the bonds in this Index and the average duration of our benefit liabilities, based upon a published index. As of the beginning of our 2008 fiscal year, our discount rate will be determined using the Mercer Pension Discount Yield Curve (Mercer Yield Curve). The Mercer Yield Curve uses a portfolio of high-quality bonds rated Aa or higher by Moody's. We believe the Mercer Yield Curve includes bonds that provide a better match to the timing and amount of expected benefit payments than the Moody's Aa Index.

The expected return on pension plan assets is based on our historical experience, our pension plan investment strategy and our expectations for long-term rates of return. Our pension plan investment strategy is reviewed annually and is established based upon plan liabilities, an evaluation of market conditions, tolerance for risk, and cash requirements for benefit payments. As part of our investment strategy, we employ certain equity strategies which, in addition to investing in U.S. and international common and preferred stock, include investing in certain equity- and debt-based securities used collectively to generate returns in excess of certain equity-based indices. Our investment policy also permits the use of derivative instruments to enhance the overall return of the portfolio. Our expected long-term rate of return on U.S. plan assets is 7.8%, reflecting estimated long-term rates of return of 9.3% from our equity strategies, and 5.8% from our fixed income strategies. Our target investment allocation is 60% for equity strategies and 40% for fixed income strategies. We use a market-related valuation method for recognizing investment gains or losses. For this purpose, investment gains or losses are

As of the beginning of our 2008 fiscal year, in accordance with SFAS 158, we will change the measurement date for our annual pension and retiree medical expense and all plan assets and liabilities from September 30 to our year-end balance sheet date.

of the beginning of our 2008 fiscal year, we will change the measurement date for our annual pension and retiree medical expense and all plan assets and liabilities from September 30 to our year-end

the difference between the expected and actual return based on the market-related value of assets. This market-related valuation method recognizes investment gains or losses over a five-year period from the year in which they occur, which has the effect of reducing year-to-year volatility. Expense in future periods will be impacted as gains or losses are recognized in the market-related value of assets over the five-year period.

Other gains and losses resulting from actual experience differing from our assumptions and from changes in our assumptions are also determined at each measurement date. If this net accumulated gain or loss exceeds 10% of the greater of plan assets or liabilities, a

portion of the net gain or loss is included in expense for the following year. The cost or benefit of plan changes that increase or decrease benefits for prior employee service (prior service cost/(credit)) is included in earnings on a straight-line basis over the average remaining service period of active plan participants, which is approximately 11 years for pension expense and approximately 13 years for retiree medical expense.

Effective as of the beginning of our 2008 fiscal year, we amended our U.S. hourly pension plan to increase the amount of participant earnings recognized in determining pension benefits. Additional pension plan amendments were also made as of the beginning of

our 2008 fiscal year to comply with legislative and regulatory changes.

The health care trend rate used to determine our retiree medical plan's liability and expense is reviewed annually. Our review is based on our claim experience, information provided by our health plans and actuaries, and our knowledge of the health care industry. Our review of the trend rate considers factors such as demographics, plan design, new medical technologies and changes in medical carriers.

Weighted-average assumptions for pension and retiree medical expense are as follows:

	2008	2007	2006
<b>Pension</b>			
Expense discount rate	6.3%	5.7%	5.6%
Expected rate of return on plan assets	7.6%	7.7%	7.7%
Expected rate of salary increases	4.4%	4.5%	4.4%
<b>Retiree medical</b>			
Expense discount rate	6.4%	5.8%	5.7%
Current health care cost trend rate	8.5%	9.0%	10.0%



### Sensitivity of Assumptions

A decrease in the discount rate or in the expected rate of return assumptions would increase pension expense. The estimated impact of a 25-basis-point decrease in the discount rate on 2008 pension expense is an increase of approximately \$36 million. The estimated impact on 2008 pension expense of a 25-basis-point decrease in the expected rate of return is an increase of approximately \$17 million.

See Note 7 regarding the sensitivity of our retiree medical cost assumptions.

### Future Funding

We make contributions to pension trusts maintained to provide plan benefits for certain pension plans. These contributions

are made in accordance with applicable tax regulations that provide for current tax deductions for our contributions, and taxation to the employee only upon receipt of plan benefits. Generally, we do not fund our pension plans when our contributions would not be currently deductible.

Our pension contributions for 2007 were \$230 million, of which \$92 million was discretionary. In 2008, we expect to make contributions of up to \$150 million with up to \$75 million expected to be discretionary. Our cash payments for retiree medical are estimated to be approximately \$85 million in 2008. As our retiree medical plans are not subject to regulatory funding requirements, we fund these plans on

a pay-as-you-go basis. Our pension and retiree medical contributions are subject to change as a result of many factors, such as changes in interest rates, deviations between actual and expected asset returns, and changes in tax or other benefit laws. For estimated future benefit payments, including our pay-as-you-go payments as well as those from trusts, see Note 7.

### Recent Accounting Pronouncements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that we quantify misstatements based on their impact on each of our financial statements and related disclosures. On December 30, 2006, we adopted SAB 108. Our adoption of SAB 108 did not impact our financial statements.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value

measurements. The provisions of SFAS 157 are effective as of the beginning of our 2008 fiscal year. However, the FASB deferred the effective date of SFAS 157, until the beginning of our 2009 fiscal year, as it relates to fair value measurement requirements for nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis. We are currently evaluating the impact of adopting SFAS 157 on our financial statements. We do not expect our adoption to have a material impact on our financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159), which permits entities to choose to measure many financial

instruments and certain other items at fair value. The provisions of SFAS 159 are effective as of the beginning of our 2008 fiscal year. Our adoption of SFAS 159 will not impact our financial statements.

In December 2007, the FASB issued SFAS 141 (revised 2007), *Business Combinations* (SFAS 141R), and SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160), to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The provisions of SFAS 141R and SFAS 160 are effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact of adopting SFAS 141R and SFAS 160 on our financial statements.

# OUR FINANCIAL RESULTS

## Items Affecting Comparability

The year-over-year comparisons of our financial results are affected by the following items:

	2007	2006
<b>Operating profit</b>		
Restructuring and impairment charges	<b>\$(102)</b>	\$(67)
<b>Net income</b>		
Restructuring and impairment charges	<b>\$(70)</b>	\$(43)
Tax benefits	<b>\$129</b>	\$602
PepsiCo share of PBG tax settlement	—	\$18
<b>Net income per common share — diluted</b>		
Restructuring and impairment charges	<b>\$(0.04)</b>	\$(0.03)
Tax benefits	<b>\$0.08</b>	\$0.36
PepsiCo share of PBG tax settlement	—	\$0.01

For the items affecting our 2005 results, see Notes 3 and 5, as well as our 2006 Annual Report.

### Restructuring and Impairment Charges

In 2007, we incurred a charge of \$102 million in conjunction with restructuring actions primarily to close certain plants and rationalize other production lines across FLNA, PBNA and PI.

In 2006, we incurred a charge of \$67 million in conjunction with consolidating the manufacturing network at FLNA by closing two plants in the U.S., and rationalizing other assets, to increase manufacturing productivity and supply chain efficiencies.

### Tax Benefits

In 2007, we recognized \$129 million of non-cash tax benefits related to the favorable resolution of certain foreign tax matters.

In 2006, we recognized non-cash tax benefits of \$602 million, substantially all of which related to the Internal Revenue Service's (IRS) examination of our consolidated tax returns for the years 1998 through 2002.

### PepsiCo Share of PBG Tax Settlement

In 2006, the IRS concluded its examination of PBG's consolidated income tax returns for the years 1999 through 2000 (PBG's Tax Settlement). Consequently, a non-cash benefit of \$21 million was included in bottling equity income as part of recording our share of PBG's financial results.

# Results of Operations — Consolidated Review

In the discussions of net revenue and operating profit below, *effective net pricing* reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

## Servings

Since our divisions each use different measures of physical unit volume (i.e., kilos, gallons, pounds and case sales), a common servings metric is necessary to reflect our consolidated physical unit volume. Our divisions' physical volume measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

In 2007, total servings increased over 4% compared to 2006, as servings for beverages worldwide grew 4% and servings for snacks worldwide grew 6%. All of our divisions positively contributed to the total servings growth. In 2006, total servings increased 5.5% compared to 2005, as servings for beverages worldwide grew over 6% and servings for snacks worldwide grew 5%.

## Net Revenue and Operating Profit

	2007	2006	2005	Change	
				2007	2006
Total net revenue	\$39,474	\$35,137	\$32,562	12%	8%
Operating profit					
FLNA	\$2,845	\$2,615	\$2,529	9%	3%
PBNA	2,188	2,055	2,037	6%	1%
PI	2,322	2,016	1,661	15%	21%
QFNA	568	554	537	2.5%	3%
Corporate unallocated	(753)	(738)	(780)	2%	(5)%
Total operating profit	\$7,170	\$6,502	\$5,984	10%	9%
Total operating profit margin	18.2%	18.5%	18.4%	(0.3)	0.1

### 2007

Net revenue increased 12% primarily reflecting favorable effective net pricing and volume growth. Effective net pricing contributed 4 percentage points and the volume gains contributed 3 percentage points to net revenue growth. The impact of acquisitions contributed 3 percentage points and foreign currency contributed 2 percentage points to net revenue growth.

Total operating profit increased 10% and margin decreased 0.3 percentage points. The operating profit performance reflects leverage from the revenue growth, offset by increased cost of sales, largely due to higher raw material costs. The impact of foreign currency contributed 2 percentage points to operating profit growth. There was no net impact of acquisitions and divestitures on operating profit growth.

### 2006

Net revenue increased 8% primarily reflecting higher volume and positive effective net pricing across all divisions. The volume gains and the effective net pricing each contributed 3 percentage points to net revenue growth. Acquisitions contributed 1 percentage point and foreign exchange contributed almost 1 percentage point to net revenue growth. The absence of the prior year's additional week reduced net revenue growth by over 1 percentage point and reduced volume growth by almost 1 percentage point.

Total operating profit increased 9% and margin increased 0.1 percentage points. The operating profit gains reflect the net revenue growth, partially offset by the impact of higher raw material and energy costs across all divisions. The absence of

the prior year's additional week reduced operating profit growth by over 1 percentage point.

### Corporate Unallocated Expenses

Corporate unallocated expenses include the costs of our corporate headquarters, centrally managed initiatives, such as our ongoing business transformation initiative in North America, unallocated insurance and benefit programs, foreign exchange transaction gains and losses, and certain commodity derivative gains and losses, as well as profit-in-inventory elimination adjustments for our noncontrolled bottling affiliates and certain other items.

In 2007, corporate unallocated expenses increased 2% primarily reflecting \$35 million of increased research and development costs, partially offset by lower pension costs of \$18 million. Gains



of \$19 million from certain mark-to-market derivatives (compared to \$18 million of losses in the prior year) were fully offset by the absence of certain other favorable corporate items in the prior year.

In 2006, corporate unallocated expenses decreased \$42 million primarily

reflecting the absence of a non-recurring charge of \$55 million in the prior year to conform our method of accounting across all divisions, primarily for warehouse and freight costs. Higher costs associated with our ongoing business transformation initiative of \$35 million, as well as the

unfavorable comparison to the prior year's \$25 million gain in connection with the settlement of a class action lawsuit, were offset by the favorable impact of certain other corporate items.

## Other Consolidated Results

	2007	2006	2005	Change	
				2007	2006
Bottling equity income	\$560	\$553	\$495	1%	12%
Interest expense, net	\$(99)	\$(66)	\$(97)	\$(33)	\$31
Annual tax rate	25.9%	19.3%	36.1%		
Net income	\$5,658	\$5,642	\$4,078	—	38%
Net income per common share — diluted	\$3.41	\$3.34	\$2.39	2%	40%

Bottling equity income includes our share of the net income or loss of our anchor bottlers as described in "Our Customers." Our interest in these bottling investments may change from time to time. Any gains or losses from these changes, as well as other transactions related to our bottling investments, are also included on a pre-tax basis. During 2007, we continued to sell shares of PBG stock to reduce our economic ownership to the level at the time of PBG's initial public offering, since our ownership has increased as a result of PBG's share repurchase program. We sold 9.5 million and 10.0 million shares of PBG stock in 2007 and 2006, respectively. The resulting lower ownership percentage reduces the equity income from PBG that we recognize. In November 2007, our Board of Directors approved the sale of additional PBG stock to an economic ownership level of 35%, as well as the sale of PAS stock to the ownership level at the time of the merger with Whitman Corporation in 2000 of about 37%.

### 2007

Bottling equity income increased 1% reflecting higher earnings from our anchor bottlers, partially offset by the impact of our reduced ownership level in 2007 and lower pre-tax gains on our sale of PBG stock.

Net interest expense increased \$33 million primarily reflecting the impact of lower investment balances and higher average rates on our debt, partially offset by higher average interest rates on our investments and lower average debt balances.

The tax rate increased 6.6 percentage points compared to the prior year primarily reflecting an unfavorable comparison to the prior year's non-cash tax benefits.

Net income remained flat and the related net income per share increased 2%. Our solid operating profit growth was offset by unfavorable comparisons to the non-cash tax benefits and restructuring and impairment charges in the prior year. Additionally, net income per share was favorably impacted by our share repurchases.

### 2006

Bottling equity income increased 12% primarily reflecting a \$186 million pre-tax gain on our sale of PBG stock, which compared favorably to a \$126 million pre-tax gain in the prior year. The non-cash gain of \$21 million from our share of PBG's Tax Settlement was fully offset by lower equity income from our anchor bottlers in the current year, primarily resulting from the impact of their respective adoptions of SFAS 123R in 2006.

Net interest expense decreased \$31 million primarily reflecting higher average rates on our investments and lower debt balances, partially offset by lower investment balances and the impact of higher average rates on our borrowings.

The tax rate decreased 16.8 percentage points compared to prior year primarily reflecting the non-cash tax benefits recorded in 2006, the absence of the 2005 tax charge related to the American Jobs Creation Act of 2004 (AJCA) and the resolution of certain state income tax audits in the current year.

Net income increased 38% and the related net income per share increased 40%. These increases primarily reflect the non-cash tax benefits recorded in 2006, the absence of the AJCA tax charge and our solid operating profit growth.

## Results of Operations — Division Review

The results and discussions below are based on how our Chief Executive Officer monitors the performance of our divisions. For additional information on these items and our divisions, see Note 1.

	FLNA	PBNA	PI	QFNA	Total
<b>Net Revenue, 2007</b> .....	<b>\$11,586</b>	<b>\$10,230</b>	<b>\$15,798</b>	<b>\$1,860</b>	<b>\$39,474</b>
Net Revenue, 2006.....	\$10,844	\$9,565	\$12,959	\$1,769	\$35,137
% Impact of:					
Volume <sup>(a)</sup> .....	3%	(2)%	7%	2%	3%
Effective net pricing <sup>(b)</sup> .....	4	6	3.5	3	4
Foreign exchange .....	0.5	—	6	1	2
Acquisitions/divestitures .....	—	2	6	—	3
<b>% Change<sup>(c)</sup></b> .....	<b>7%</b>	<b>7%</b>	<b>22%</b>	<b>5%</b>	<b>12%</b>

	FLNA	PBNA	PI	QFNA	Total
Net Revenue, 2006.....	\$10,844	\$9,565	\$12,959	\$1,769	\$35,137
Net Revenue, 2005.....	\$10,322	\$9,146	\$11,376	\$1,718	\$32,562
% Impact of:					
Volume <sup>(a)</sup> .....	1%	3%	6%	1%	3%
Effective net pricing <sup>(b)</sup> .....	3	1	4	2	3
Foreign exchange .....	0.5	—	1	1	1
Acquisitions/divestitures .....	0.5	—	3	—	1
<b>% Change<sup>(c)</sup></b> .....	<b>5%</b>	<b>5%</b>	<b>14%</b>	<b>3%</b>	<b>8%</b>

(a) Excludes the impact of acquisitions and divestitures. For PBNA and PI, volume growth varies from the amounts disclosed in the following divisional discussions due primarily to non-consolidated joint venture volume and temporary timing differences between BCS and CSE. Our net revenue for PBNA and PI excludes non-consolidated joint venture volume and is based on CSE.

(b) Includes the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

(c) Amounts may not sum due to rounding.

## Frito-Lay North America

	2007	2006	2005	% Change	
				2007	2006
Net revenue	\$11,586	\$10,844	\$10,322	7	5
Operating profit	\$2,845	\$2,615	\$2,529	9	3

### 2007

Net revenue grew 7% reflecting volume growth of 3% and positive effective net pricing due to pricing actions and favorable mix. Pound volume grew primarily due to high-single-digit growth in trademark Doritos and double-digit growth in dips, SunChips and multipack. These

In 2007, FLNA volume grew primarily due to high-single-digit growth in trademark Doritos and double-digit growth in dips, SunChips and multipack.

volume gains were partially offset by a mid-single-digit decline in trademark Lay's.

Operating profit grew 9% primarily reflecting the net revenue growth, as well as a favorable casualty insurance actuarial adjustment reflecting improved safety performance. This growth was partially offset by higher commodity costs, as well as increased advertising and marketing expenses. Operating profit benefited almost 2 percentage points from the

impact of lower restructuring and impairment charges in the current year related to the continued consolidation of the manufacturing network.

Smart Spot eligible products represented approximately 16% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio had mid-single-digit revenue growth.

### 2006

Net revenue grew 5% reflecting volume growth of 1% and positive effective net pricing due to salty snack pricing actions and favorable mix. Pound volume grew primarily due to double-digit growth in SunChips, Multipack and Quaker

Rice Cakes. These volume gains were partially offset by low-single-digit declines in trademark Lay's and Doritos. The Stacy's Pita Chip Company acquisition contributed approximately 0.5 percentage points to both revenue and volume growth. The absence of the prior year's additional week reduced volume and net revenue growth by 2 percentage points.

Operating profit grew 3% reflecting the net revenue growth. This growth was partially offset by higher commodity costs, primarily cooking oil and energy. Operating profit was also negatively impacted by almost 3 percentage points as a result of a fourth quarter charge for the consolidation of the manufacturing network, including the closure of two plants and rationalization of other manufacturing assets. The absence of the prior year's additional week, which reduced operating profit growth by 2 percentage points, was largely offset by the impact of restructuring charges in the prior year to reduce costs in our operations, principally through headcount reductions.

FLNA's Smart Spot eligible products experienced double-digit revenue growth in both 2007 and 2006.

Smart Spot eligible products represented approximately 15% of net revenue. These products experienced double-digit revenue growth, while the balance of the portfolio had low-single-digit revenue growth.



# PepsiCo Beverages North America

	2007	2006	2005	% Change	
				2007	2006
Net revenue	\$10,230	\$9,565	\$9,146	7	5
Operating profit	\$2,188	\$2,055	\$2,037	6	1

## 2007

BCS volume was flat due to a 3% decline in CSDs, entirely offset by a 5% increase in non-carbonated beverages. The decline in the CSD portfolio reflects a mid-single-digit decline in trademark Pepsi offset slightly by a low-single-digit increase in trademark Sierra Mist. Trademark Mountain Dew volume was flat. Across the brands, regular CSDs experienced a mid-single-digit decline and diet CSDs experienced a low-single-digit decline. The non-carbonated portfolio performance was driven by double-digit growth in Lipton ready-to-drink teas, double-digit growth in waters and enhanced waters under the Aquafina, Propel and SoBe Life Water trademarks and low-single-digit growth in Gatorade, partially offset by a mid-single-digit decline in our juice and juice drinks portfolio as a result of previous price increases.

Net revenue grew 7% driven by effective net pricing, primarily reflecting price increases on Tropicana Pure Premium and CSD concentrate and growth in finished goods beverages. Acquisitions contributed 2 percentage points to net revenue growth.

Operating profit increased 6% reflecting the net revenue growth, partially offset by higher cost of sales, mainly due to increased fruit costs, as well as higher general and administrative costs. The impact of restructuring actions taken in the fourth quarter was fully offset by the favorable impact of Canadian exchange rates during the year. Operating profit was also positively impacted by the absence of amortization expense related to a prior acquisition, partially offset by the absence of a \$29 million favorable insurance settlement, both recorded in 2006. The impact of acquisitions reduced operating profit by less than 1 percentage point.

Smart Spot eligible products represented over 70% of net revenue. These products experienced mid-single-digit net revenue growth, while the balance of the portfolio grew in the high-single-digit range.

## 2006

BCS volume grew 4%. The volume increase was driven by a 14% increase in non-carbonated beverages, partially offset by a 2% decline in CSDs. The non-carbonated portfolio performance was driven by double-digit growth in trademark Aquafina, Gatorade, Lipton ready-to-drink teas, Tropicana juice drinks and Propel. Tropicana Pure Premium experienced a low-single-digit decline in volume. The decline in CSDs reflects a low-single-digit decline in trademark Pepsi, partially offset by a mid-single-digit increase in trademark Sierra Mist and a low-single-digit increase in trademark Mountain Dew. Across the brands, regular CSDs experienced a low-single-digit decline and diet CSDs declined slightly. The additional week in 2005 had no significant impact on volume growth as bottler volume is reported based on a calendar month.

Net revenue grew 5%. Positive mix contributed to the revenue growth, reflecting the strength of non-carbonated beverages. Price increases taken in 2006, primarily on concentrate, Tropicana Pure Premium and fountain, were offset by overall higher trade spending. The absence of the prior year's additional week reduced net revenue growth by 1 percentage point.

Operating profit increased 1% primarily reflecting the net revenue growth and lower advertising and marketing expenses. Higher raw material costs,

primarily oranges, increased supply chain costs in Gatorade and higher energy costs substantially offset the operating profit increase. Total marketplace spending for the year increased, reflecting a shift from advertising and marketing spending to trade spending. Additionally, the impact of more-favorable settlements of trade spending accruals in 2005 was mostly offset by a favorable insurance settlement of \$29 million in 2006. The absence of the prior year's additional week, which reduced operating profit growth by

Smart Spot eligible products represented over 70% of PBNA's total revenue in both 2007 and 2006.

1 percentage point, was fully offset by the impact of charges taken in the fourth quarter of 2005 to reduce costs in our operations, principally through headcount reductions.

Smart Spot eligible products represented over 70% of net revenue. These products experienced high-single-digit revenue growth, while the balance of the portfolio declined in the low-single-digit range.

## PepsiCo International

	2007	2006	2005	% Change	
				2007	2006
Net revenue	\$15,798	\$12,959	\$11,376	22	14
Operating profit	\$2,322	\$2,016	\$1,661	15	21

### 2007

International snacks volume grew 9% reflecting double-digit growth in Russia, the Middle East and Turkey, partially offset by low-single-digit declines at Sabritas in Mexico and Walkers in the United Kingdom. Additionally, Gamesa in Mexico, India and China all grew at double-digit rates. Overall, the Europe, Middle East & Africa region grew 9%, the Latin America region grew 6% and the Asia Pacific region grew 20%. Acquisitions in Europe, New Zealand and Brazil increased the Europe, Middle East & Africa region volume growth by 1 percentage point, the Asia Pacific region volume growth by 7 percentage points and the Latin America region volume growth by 0.5 percentage points, respectively. In aggregate, acquisitions contributed almost 2 percentage points to the reported total PepsiCo International snack volume growth rate.

PI experienced double-digit revenue and operating profit growth in both 2007 and 2006.

Beverage volume grew 8% led by double-digit growth in the Middle East, China and Pakistan, partially offset by a low-single-digit decline in Mexico and a high-single-digit decline in Thailand. Additionally, Russia and Brazil grew at double-digit rates. The Europe, Middle East & Africa region grew 11%, the Asia Pacific region grew 8% and the Latin America region grew 4%. The acquisition of a business in Europe increased the Europe, Middle East & Africa region volume growth by 1 percentage point and the total PepsiCo International beverage volume growth by nearly 1 percentage

point. CSDs grew at a high-single-digit rate while non-carbonated beverages grew at a double-digit rate.

Net revenue grew 22% reflecting the volume growth and favorable effective net pricing. Foreign currency contributed 6 percentage points of growth primarily reflecting the favorable euro, British pound and Brazilian real. The net impact of acquisitions and divestitures also contributed 6 percentage points to net revenue growth.

Operating profit grew 15% driven largely by the volume growth and favorable effective net pricing, partially offset by increased raw material costs. Foreign currency contributed 5 percentage points of growth primarily reflecting the favorable British pound, euro and Brazilian real. The net impact of acquisitions and divestitures on operating profit was minimal. The impact of restructuring actions taken in the fourth quarter to reduce costs in our operations, rationalize capacity and realign our organizational structure reduced operating profit growth by 3 percentage points.

### 2006

International snacks volume grew 9% reflecting double-digit growth in Russia, Turkey, Egypt and India and single-digit growth at Sabritas in Mexico. Overall, the Europe, Middle East & Africa region grew 17%, the Latin America region grew 2.5% and the Asia Pacific region grew 12%. Acquisitions of two businesses in Europe in 2006 increased the Europe, Middle East & Africa region volume growth by nearly 6 percentage points. The acquisition of a business in Australia increased the Asia Pacific region volume growth by 1 percentage point. In aggregate, acquisitions contributed 2 percentage points to the reported total PepsiCo

International snack volume growth rate. The absence of the prior year's additional week reduced the growth rate by 1 percentage point.

Beverage volume grew 9% reflecting broad-based increases led by double-digit growth in the Middle East, China, Argentina, Russia and Venezuela. The Europe, Middle East & Africa region grew 11%, the Asia Pacific region grew 9% and the Latin America region grew 7%. Acquisitions contributed 1 percentage point to the Europe, Middle East & Africa region volume growth rate and contributed slightly to the reported total PepsiCo International beverage volume growth rate. CSDs grew at a high-single-digit rate while non-carbonated beverages grew at a double-digit rate.

Net revenue grew 14% primarily as a result of the broad-based volume growth and favorable effective net pricing. The net impact of acquisitions and divestitures contributed nearly 3 percentage points to net revenue growth. Foreign currency contributed 1 percentage point of growth. The absence of the prior year's additional week reduced net revenue growth by 1 percentage point.

Operating profit grew 21% driven primarily by the net revenue growth, partially offset by increased raw material and energy costs. The net impact of acquisitions and divestitures contributed 1 percentage point of growth. Foreign currency also contributed 1 percentage point of growth. The absence of the prior year's additional week, which reduced the operating profit growth rate by 1 percentage point, was fully offset by the impact of charges taken in 2005 to reduce costs in our operations and rationalize capacity.

# Quaker Foods North America

	2007	2006	2005	% Change	
				2007	2006
Net revenue	\$1,860	\$1,769	\$1,718	5	3
Operating profit	\$568	\$554	\$537	2.5	3

## 2007

Net revenue increased 5% and volume increased 2%. The volume increase reflects mid-single-digit growth in Oatmeal and Life cereal, as well as low-single-digit growth in Cap'n Crunch cereal. These increases were partially offset by a double-digit decline in Rice-A-Roni. The increase in net revenue primarily reflects price increases taken earlier in the year, as well as the volume growth. Favorable Canadian exchange rates contributed nearly 1 percentage point to net revenue growth.

Operating profit increased 2.5% primarily reflecting the net revenue growth partially offset by increased raw material costs.

Smart Spot eligible products represented over half of net revenue and experienced mid-single-digit net revenue growth. The balance of the portfolio also grew in the mid-single-digit range.

## 2006

Net revenue grew 3% and volume increased 1%. The volume increase reflects mid-single-digit growth in Oatmeal, high-single-digit growth in Life cereal and low-single-digit growth in Cap'n Crunch cereal. These increases were partially offset by a low-single-digit decline in Aunt Jemima syrup and mix and a mid-single-digit decline in Rice-A-Roni. Net revenue growth was also driven by favorable effective net pricing, which contributed almost 2 percentage points to net revenue growth, and favorable Canadian foreign exchange rates which contributed almost 1 percentage point. The absence of the prior year's additional week reduced both net revenue and volume growth by approximately 2 percentage points.

Operating profit increased 3% primarily reflecting the net revenue growth. Increased cost of sales, primarily driven

by higher raw material and energy costs, were largely offset by lower advertising and marketing expenses. The absence of the prior year's additional week reduced operating profit growth by approximately 2 percentage points.

QFNA's revenue and volume growth accelerated in 2007 to 5% and 2%, respectively.

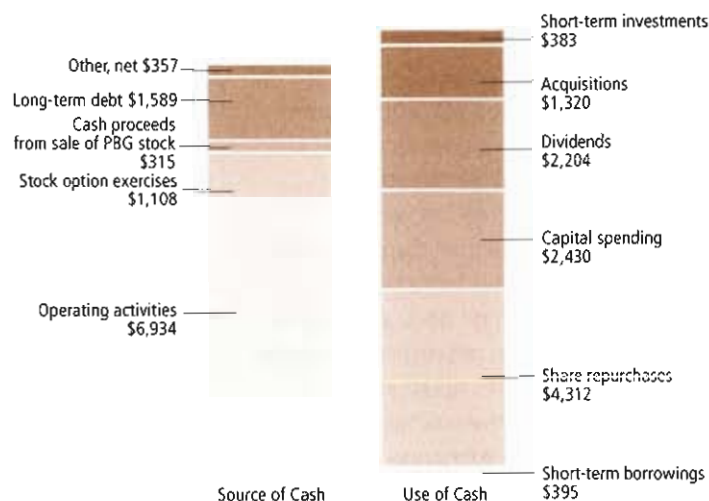
Smart Spot eligible products represented approximately 55% of net revenue and had mid-single-digit net revenue growth. The balance of the portfolio experienced a low-single-digit decline. The absence of the prior year's additional week negatively impacted these results.



# Our Liquidity and Capital Resources

Our strong cash-generating capability and financial condition give us ready access to capital markets throughout the world. Our principal source of liquidity is our operating cash flow. This cash-generating capability is one of our fundamental strengths and provides us with substantial financial flexibility in meeting operating, investing and financing needs. In addition, we have revolving credit facilities that are further discussed in Note 9. Our cash provided from operating activities is somewhat impacted by seasonality. Working capital needs are impacted by weekly sales, which are generally highest in the third quarter due to seasonal and holiday-related sales patterns, and generally lowest in the first quarter.

## 2007 Cash Utilization



### Operating Activities

In 2007, our operations provided \$6.9 billion of cash, compared to \$6.1 billion in the prior year, primarily reflecting our solid business results. Our operating cash flow in 2006 also reflects a tax payment of \$420 million related to our repatriation of international cash in connection with the AJCA.

### Investing Activities

In 2007, we used \$3.7 billion for our investing activities primarily reflecting capital spending of \$2.4 billion and acquisitions of \$1.3 billion. Acquisitions primarily included the remaining interest in a snacks joint venture in Latin America, Naked Juice Company and Bluebird Foods, and the acquisition of a minority interest in a juice company in the Ukraine through a joint venture with PAS. Proceeds from our sale of PBG stock of \$315 million were offset by net purchases of short-term investments of \$383 million. In 2006, capital spending of \$2.1 billion and acquisitions of \$522 million were mostly offset by net sales of short-term investments of \$2.0 billion and proceeds from our sale of PBG stock of \$318 million.

We anticipate net capital spending of approximately \$2.7 billion in 2008, which is expected to be within our net capital spending target of approximately 5% to 7% of net revenue. Planned capital spending in 2008 includes investments to increase capacity in our snack and beverage businesses to support growth in developing and emerging markets, investments in North America to support growth in key trademarks, and investments in our ongoing business transformation initiative. New capital projects are evaluated on a case-by-case basis and must meet certain payback and internal rate of return targets.

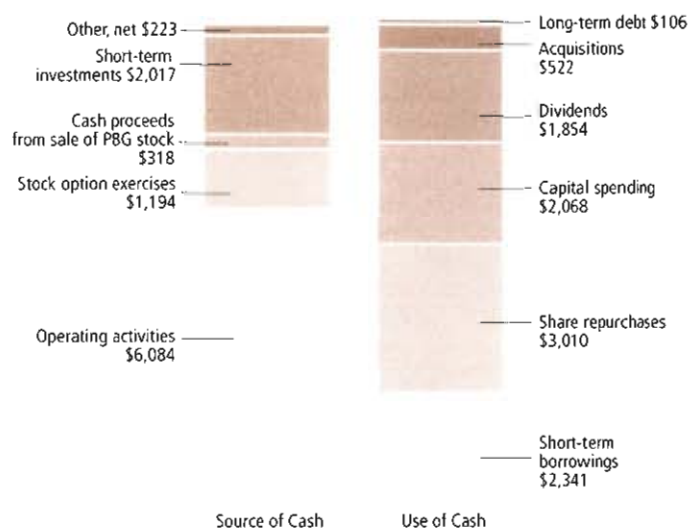
### Financing Activities

In 2007, we used \$4.0 billion for our financing activities, primarily reflecting the return of operating cash flow to our shareholders through common share repurchases of \$4.3 billion and dividend payments of \$2.2 billion, as well as net repayments of short-term borrowings of \$395 million. The use of cash was partially offset by stock option proceeds of \$1.1 billion and net proceeds from issuances of long-term debt of \$1.6 billion.

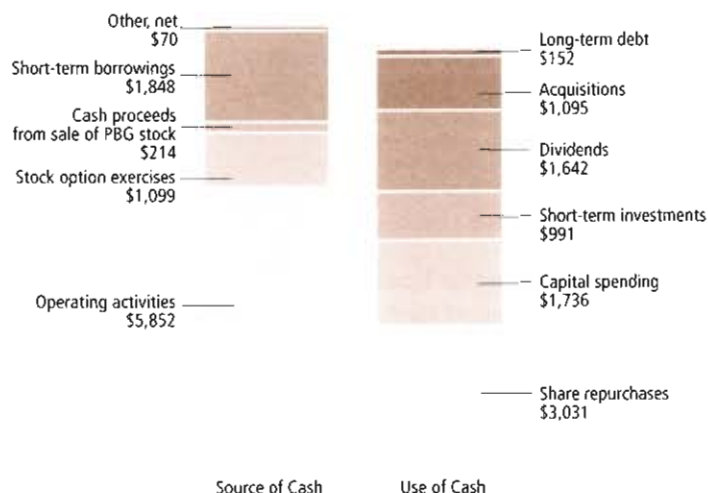
In 2006, we used \$6.0 billion for our financing activities, primarily reflecting the return of operating cash flow to our shareholders through common share repurchases of \$3.0 billion and dividend payments of \$1.9 billion. Net repayments of short-term borrowings of \$2.3 billion were partially offset by stock option proceeds of \$1.2 billion.

We annually review our capital structure with our Board, including our dividend policy and share repurchase activity. In the second quarter of 2007, our Board of Directors approved an increase in our targeted dividend payout rate from 45% to 50% of prior year's earnings, excluding certain items. The Board of Directors also authorized stock repurchases of up to an additional \$8 billion through June 30, 2010, once the current share repurchase authorization is complete. The current \$8.5 billion authorization began in 2006 and has approximately \$3.1 billion remaining. We have historically repurchased significantly more shares each year than we have issued under our stock-based compensation plans, with average net annual repurchases of 1.4% of outstanding shares for the last five years.

## 2006 Cash Utilization



## 2005 Cash Utilization



	2007	2006	2005
Net cash provided by operating activities	\$ 6,934	\$ 6,084	\$ 5,852
Capital spending	(2,430)	(2,068)	(1,736)
Sales of property, plant and equipment	47	49	88
Management operating cash flow	\$ 4,551	\$ 4,065	\$ 4,204

### Management Operating Cash Flow

We focus on management operating cash flow as a key element in achieving maximum shareholder value, and it is the primary measure we use to monitor cash flow performance. However, it is not a measure provided by accounting principles generally accepted in the U.S. Since net capital spending is essential to our product innovation initiatives and maintaining our operational capabilities, we believe that it is a recurring and necessary use of cash. As such, we believe investors should also consider net capital spending when evaluating our cash from operating activities. The table above reconciles the net cash provided by operating activities, as reflected in our cash flow statement, to our management operating cash flow.

Management operating cash flow was used primarily to repurchase shares and pay dividends. We expect to continue to return approximately all of our management operating cash flow to our shareholders through dividends and share repurchases. However, see "Our Business Risks" for certain factors that may impact our operating cash flows.

### Credit Ratings

Our debt ratings of Aa2 from Moody's and A+ from Standard & Poor's contribute to our ability to access global capital markets. We have maintained strong investment grade ratings for over a decade. Each rating is considered strong investment grade and is in the first quartile of their respective ranking systems. These ratings also reflect the impact of our anchor bottlers' cash flows and debt.

### Credit Facilities and Long-Term Contractual Commitments

See Note 9 for a description of our credit facilities and long-term contractual commitments.

### Off-Balance-Sheet Arrangements

It is not our business practice to enter into off-balance-sheet arrangements, other than in the normal course of business. However, certain guarantees were necessary to facilitate the separation of our bottling and restaurant operations from us. At year-end 2007, we believe it is remote that these guarantees would require any cash payment. We do not enter into off-balance-sheet transactions specifically structured to provide income or tax benefits or to avoid recognizing or disclosing assets or liabilities. See Note 9 for a description of our off-balance-sheet arrangements.

# Consolidated Statement of Income

PepsiCo, Inc. and Subsidiaries

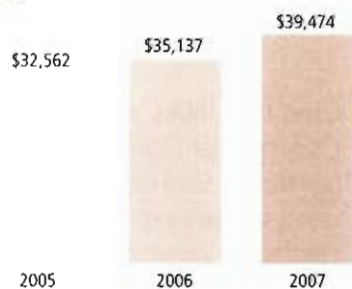
Fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005

(in millions except per share amounts)

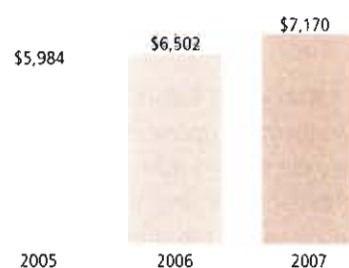
	2007	2006	2005
<b>Net Revenue</b> .....	<b>\$39,474</b>	<b>\$35,137</b>	<b>\$32,562</b>
Cost of sales .....	<b>18,038</b>	15,762	14,176
Selling, general and administrative expenses .....	<b>14,208</b>	12,711	12,252
Amortization of intangible assets .....	<b>58</b>	162	150
<b>Operating Profit</b> .....	<b>7,170</b>	<b>6,502</b>	<b>5,984</b>
Bottling equity income .....	<b>560</b>	553	495
Interest expense .....	<b>(224)</b>	(239)	(256)
Interest income .....	<b>125</b>	173	159
<b>Income before Income Taxes</b> .....	<b>7,631</b>	<b>6,989</b>	<b>6,382</b>
<b>Provision for Income Taxes</b> .....	<b>1,973</b>	<b>1,347</b>	<b>2,304</b>
<b>Net Income</b> .....	<b>\$ 5,658</b>	<b>\$ 5,642</b>	<b>\$ 4,078</b>
<b>Net Income per Common Share</b>			
<b>Basic</b> .....	<b>\$3.48</b>	<b>\$3.42</b>	<b>\$2.43</b>
<b>Diluted</b> .....	<b>\$3.41</b>	<b>\$3.34</b>	<b>\$2.39</b>

See accompanying notes to consolidated financial statements.

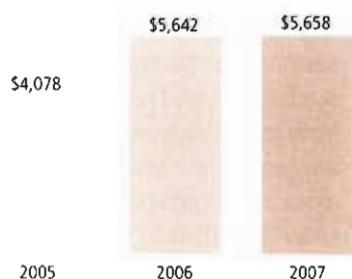
## Net Revenue



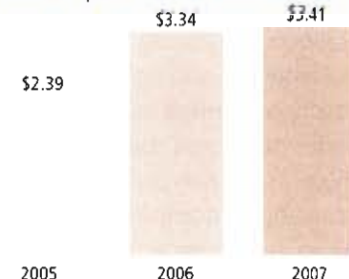
## Operating Profit



## Net Income



## Net Income per Common Share





# Consolidated Statement of Cash Flows

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005

(in millions)	2007	2006	2005
<b>Operating Activities</b>			
Net income	\$ 5,658	\$ 5,642	\$ 4,078
Depreciation and amortization	1,426	1,406	1,308
Stock-based compensation expense	260	270	311
Excess tax benefits from share-based payment arrangements	(208)	(134)	—
Cash payments for merger-related costs and restructuring charges	—	—	(22)
Pension and retiree medical plan contributions	(310)	(131)	(877)
Pension and retiree medical plan expenses	535	544	464
Bottling equity income, net of dividends	(441)	(442)	(414)
Deferred income taxes and other tax charges and credits	118	(510)	440
Change in accounts and notes receivable	(405)	(330)	(272)
Change in inventories	(204)	(186)	(132)
Change in prepaid expenses and other current assets	(16)	(37)	(56)
Change in accounts payable and other current liabilities	500	223	188
Change in income taxes payable	128	(295)	609
Other, net	(107)	64	227
<b>Net Cash Provided by Operating Activities</b>	<b>6,934</b>	<b>6,084</b>	<b>5,852</b>
<b>Investing Activities</b>			
Capital spending	(2,430)	(2,068)	(1,736)
Sales of property, plant and equipment	47	49	88
Proceeds from (Investment in) finance assets	27	(25)	—
Acquisitions and investments in noncontrolled affiliates	(1,320)	(522)	(1,095)
Cash proceeds from sale of PBG stock	315	318	214
Divestitures	—	37	3
Short-term investments, by original maturity			
More than three months — purchases	(83)	(29)	(83)
More than three months — maturities	113	25	84
Three months or less, net	(413)	2,021	(992)
<b>Net Cash Used for Investing Activities</b>	<b>(3,744)</b>	<b>(194)</b>	<b>(3,517)</b>
<b>Financing Activities</b>			
Proceeds from issuances of long-term debt	2,168	51	25
Payments of long-term debt	(579)	(157)	(177)
Short-term borrowings, by original maturity			
More than three months — proceeds	83	185	332
More than three months — payments	(133)	(358)	(85)
Three months or less, net	(345)	(2,168)	1,601
Cash dividends paid	(2,204)	(1,854)	(1,642)
Share repurchases — common	(4,300)	(3,000)	(3,012)
Share repurchases — preferred	(12)	(10)	(19)
Proceeds from exercises of stock options	1,108	1,194	1,099
Excess tax benefits from share-based payment arrangements	208	134	—
<b>Net Cash Used for Financing Activities</b>	<b>(4,006)</b>	<b>(5,983)</b>	<b>(1,878)</b>
Effect of exchange rate changes on cash and cash equivalents	75	28	(21)
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>	<b>(741)</b>	<b>(65)</b>	<b>436</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>1,651</b>	<b>1,716</b>	<b>1,280</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 910</b>	<b>\$ 1,651</b>	<b>\$ 1,716</b>

See accompanying notes to consolidated financial statements.

# Consolidated Balance Sheet

PepsiCo, Inc. and Subsidiaries

December 29, 2007 and December 30, 2006

(in millions except per share amounts)	2007	2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 910	\$ 1,651
Short-term investments	1,571	1,171
Accounts and notes receivable, net	4,389	3,725
Inventories	2,290	1,926
Prepaid expenses and other current assets	991	657
<b>Total Current Assets</b>	<b>10,151</b>	<b>9,130</b>
<b>Property, Plant and Equipment, net</b>	<b>11,228</b>	<b>9,687</b>
<b>Amortizable Intangible Assets, net</b>	<b>796</b>	<b>637</b>
Goodwill	5,169	4,594
Other nonamortizable intangible assets	1,248	1,212
<b>Nonamortizable Intangible Assets</b>	<b>6,417</b>	<b>5,806</b>
<b>Investments in Noncontrolled Affiliates</b>	<b>4,354</b>	<b>3,690</b>
<b>Other Assets</b>	<b>1,682</b>	<b>980</b>
<b>Total Assets</b>	<b>\$34,628</b>	<b>\$29,930</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Short-term obligations	\$ -	\$ 274
Accounts payable and other current liabilities	7,602	6,496
Income taxes payable	151	90
<b>Total Current Liabilities</b>	<b>7,753</b>	<b>6,860</b>
<b>Long-Term Debt Obligations</b>	<b>4,203</b>	<b>2,550</b>
<b>Other Liabilities</b>	<b>4,792</b>	<b>4,624</b>
<b>Deferred Income Taxes</b>	<b>646</b>	<b>528</b>
<b>Total Liabilities</b>	<b>17,394</b>	<b>14,562</b>
<b>Commitments and Contingencies</b>		
<b>Preferred Stock, no par value</b>	<b>41</b>	<b>41</b>
<b>Repurchased Preferred Stock</b>	<b>(132)</b>	<b>(120)</b>
<b>Common Shareholders' Equity</b>		
Common stock, par value 1 2/3¢ per share (authorized 3,600 shares, issued 1,782 shares)	30	30
Capital in excess of par value	450	584
Retained earnings	28,184	24,837
Accumulated other comprehensive loss	(952)	(2,246)
	27,712	23,205
Less: repurchased common stock, at cost (177 and 144 shares, respectively)	(10,387)	(7,758)
<b>Total Common Shareholders' Equity</b>	<b>17,325</b>	<b>15,447</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$34,628</b>	<b>\$29,930</b>

See accompanying notes to consolidated financial statements.



# Consolidated Statement of Common Shareholders' Equity

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005

(in millions)	2007		2006		2005	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Common Stock</b>	1,782	\$ 30	1,782	\$ 30	1,782	\$ 30
<b>Capital in Excess of Par Value</b>						
Balance, beginning of year		584		614		618
Stock-based compensation expense		260		270		311
Stock option exercises/RSUs converted <sup>(a)</sup>		(347)		(300)		(315)
Withholding tax on RSUs converted		(47)		—		—
Balance, end of year		450		584		614
<b>Retained Earnings</b>						
Balance, beginning of year		24,837		21,116		18,730
Adoption of FIN 48		7		—		—
Adjusted balance, beginning of year		24,844		—		—
Net income		5,658		5,642		4,078
Cash dividends declared — common		(2,306)		(1,912)		(1,684)
Cash dividends declared — preferred		(2)		(1)		(3)
Cash dividends declared — RSUs		(10)		(8)		(5)
Balance, end of year		28,184		24,837		21,116
<b>Accumulated Other Comprehensive Loss</b>						
Balance, beginning of year		(2,246)		(1,053)		(886)
Currency translation adjustment		719		465		(251)
Cash flow hedges, net of tax:						
Net derivative (losses)/gains		(60)		(18)		54
Reclassification of losses/(gains) to net income		21		(5)		(8)
Adoption of SFAS 158		—		(1,782)		—
Pension and retiree medical, net of tax:						
Net pension and retiree medical gains		464		—		—
Reclassification of net losses to net income		135		—		—
Minimum pension liability adjustment, net of tax		—		138		16
Unrealized gain on securities, net of tax		9		9		24
Other		6		—		(2)
Balance, end of year		(952)		(2,246)		(1,053)
<b>Repurchased Common Stock</b>						
Balance, beginning of year	(144)	(7,758)	(126)	(6,387)	(103)	(4,920)
Share repurchases	(64)	(4,300)	(49)	(3,000)	(54)	(2,995)
Stock option exercises	28	1,582	31	1,619	31	1,523
Other, primarily RSUs converted	3	89	—	10	—	5
Balance, end of year	(177)	(10,387)	(144)	(7,758)	(126)	(6,387)
<b>Total Common Shareholders' Equity</b>		<b>\$17,325</b>		<b>\$15,447</b>		<b>\$14,320</b>
		<b>2007</b>		<b>2006</b>		<b>2005</b>
<b>Comprehensive Income</b>						
Net income		\$5,658		\$5,642		\$4,078
Currency translation adjustment		719		465		(251)
Cash flow hedges, net of tax		(39)		(23)		46
Minimum pension liability adjustment, net of tax		—		5		16
Pension and retiree medical, net of tax:						
Net prior service cost		(105)		—		—
Net gains		704		—		—
Unrealized gain on securities, net of tax		9		9		24
Other		6		—		(2)
<b>Total Comprehensive Income</b>		<b>\$6,952</b>		<b>\$6,098</b>		<b>\$3,911</b>

(a) Includes total tax benefits of \$216 million in 2007, \$130 million in 2006 and \$125 million in 2005.  
See accompanying notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

## Note 1 — Basis of Presentation and Our Divisions

### Basis of Presentation

Our financial statements include the consolidated accounts of PepsiCo, Inc. and the affiliates that we control. In addition, we include our share of the results of certain other affiliates based on our economic ownership interest. We do not control these other affiliates, as our ownership in these other affiliates is generally less than 50%. Our share of the net income of our anchor bottlers is reported in our income statement as bottling equity income. Bottling equity income also includes any changes in our ownership interests of these affiliates. Bottling equity income includes \$174 million, \$186 million and \$126 million of pre-tax gains on our sales of PBG stock in 2007, 2006 and 2005, respectively. See Note 8 for additional information on our significant noncontrolled bottling affiliates. Intercompany balances and transactions are eliminated. In 2005, we had an additional week of results (53rd week). Our fiscal year ends on the last Saturday of each December, resulting in an additional week of results every five or six years.

Beginning in the first quarter of 2007, income for certain non-consolidated international bottling interests was reclassified from bottling equity income and corporate unallocated results to PI's division operating results, to be consistent with PepsiCo's internal management accountability. Prior period amounts have been adjusted to reflect this reclassification.

Raw materials, direct labor and plant overhead, as well as purchasing and receiving costs, costs directly related to production planning, inspection costs and raw material handling facilities, are included in cost of sales. The costs of moving, storing and delivering finished product are included in selling, general and administrative expenses.

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Estimates are used

in determining, among other items, sales incentives accruals, tax reserves, stock-based compensation, pension and retiree medical accruals, useful lives for intangible assets, and future cash flows associated with impairment testing for perpetual brands, goodwill and other long-lived assets. Actual results could differ from these estimates.

See "Our Divisions" below and for additional unaudited information on items affecting the comparability of our consolidated results, see "Items Affecting Comparability" in Management's Discussion and Analysis.

Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Certain reclassifications were made to prior years' amounts to conform to the 2007 presentation.

### Our Divisions

We manufacture or use contract manufacturers, market and sell a variety of salty, sweet and grain-based snacks, carbonated and non-carbonated beverages, and foods through our North American and international business divisions. Our North American divisions include the U.S. and Canada. Division results are based on how our Chief Executive Officer assesses the performance of and allocates resources to our divisions. For additional unaudited information on our divisions, see "Our Operations" in Management's Discussion and Analysis. The accounting policies for the divisions are the same as those described in Note 2, except for the following certain allocation methodologies:

- stock-based compensation expense,
- pension and retiree medical expense, and
- derivatives.

#### Stock-Based Compensation Expense

Our divisions are held accountable for stock-based compensation expense and, therefore, this expense is allocated to our divisions as an incremental employee compensation cost. The allocation of stock-based compensation expense in 2007 was approximately 29% to FLNA, 17% to PBNA, 34% to PI, 4% to QFNA and 16% to corporate unallocated expenses. We had similar allocations of stock-based compensation expense to our divisions in 2006 and 2005. The expense allocated to our divisions excludes any impact of changes in our Black-Scholes assumptions during the year which reflect market conditions over which division management has no control. Therefore, any variances between allocated expense and our actual expense are recognized in corporate unallocated expenses.

#### Pension and Retiree Medical Expense

Pension and retiree medical service costs measured at a fixed discount rate, as well as amortization of gains and losses due to demographics, including salary experience, are reflected in division results for North American employees. Division results also include interest costs, measured at a fixed discount rate, for retiree medical plans. Interest costs for the pension plans, pension asset returns and the impact of pension funding, and gains and losses other than those due to demographics, are all reflected in corporate unallocated expenses. In addition, corporate unallocated expenses include the difference between the service costs measured at a fixed discount rate (included in division results as noted above) and the total service costs determined using the Plans' discount rates as disclosed in Note 7.

Derivatives

Beginning in the fourth quarter of 2005, we began centrally managing commodity derivatives on behalf of our divisions. Certain of the commodity derivatives, primarily those related to the purchase of energy for use by our divisions, do not qualify for hedge accounting treatment. These derivatives hedge underlying commodity price risk and were not entered into for speculative purposes. Such derivatives are marked to market with the resulting gains and losses recognized in corporate unallocated expenses. These gains and losses are subsequently reflected in division results when the

divisions take delivery of the underlying commodity. Therefore, division results reflect the contract purchase price of the energy or other commodities.

In the second quarter of 2007, we expanded our commodity hedging program to include derivative contracts used to mitigate our exposure to price changes associated with our purchases of fruit. Similar to our energy contracts, these contracts do not qualify for hedge accounting treatment and are marked to market with the resulting gains and losses recognized in corporate unallocated expenses. These gains and losses are then subsequently reflected in divisional results.

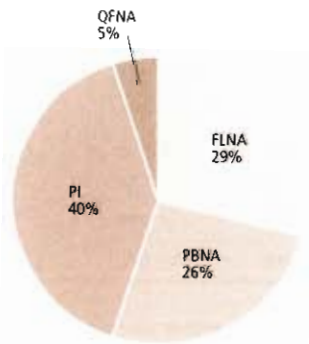
New Organizational Structure

In the fourth quarter of 2007, we announced a strategic realignment of our organizational structure. For additional unaudited information on our new organizational structure, see "Our Operations" in Management's Discussion and Analysis. In the first quarter of 2008, our historical segment reporting will be restated to reflect the new structure. The segment amounts and discussions reflected in this annual report reflect the management reporting that existed through fiscal year-end 2007.

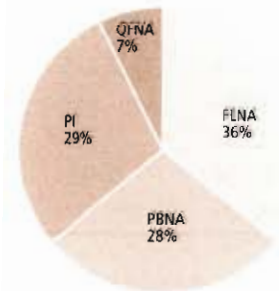


	Net Revenue			Operating Profit		
	2007	2006	2005	2007	2006	2005
FLNA	\$11,586	\$10,844	\$10,322	\$2,845	\$2,615	\$2,529
PBNA	10,230	9,565	9,146	2,188	2,055	2,037
PI	15,798	12,959	11,376	2,322	2,016	1,661
QFNA	1,860	1,769	1,718	568	554	537
Total division	39,474	35,137	32,562	7,923	7,240	6,764
Corporate	—	—	—	(753)	(738)	(780)
	\$39,474	\$35,137	\$32,562	\$7,170	\$6,502	\$5,984

Net Revenue



Division Operating Profit



Corporate

Corporate includes costs of our corporate headquarters, centrally managed initiatives, such as our ongoing business transformation initiative in North America, unallocated insurance and benefit programs, foreign exchange transaction gains and losses, and certain commodity derivative gains and losses, as well as profit-in-inventory elimination adjustments for our noncontrolled bottling affiliates and certain other items.

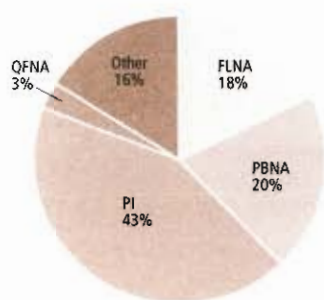


## Other Division Information

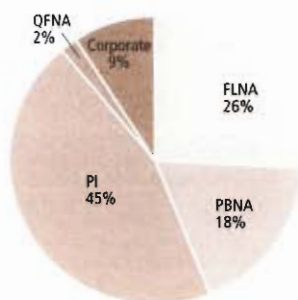
	Total Assets			Capital Spending		
	2007	2006	2005	2007	2006	2005
FLNA	\$ 6,270	\$ 5,969	\$ 5,948	\$ 624	\$ 499	\$ 512
PBNA	7,130	6,567	6,316	430	492	320
PI	14,747	11,571	10,229	1,108	835	667
QFNA	1,002	1,003	989	41	31	31
Total division	29,149	25,110	23,482	2,203	1,857	1,530
Corporate <sup>(a)</sup>	2,124	1,739	5,331	227	211	206
Investments in bottling affiliates	3,355	3,081	2,914	—	—	—
	\$34,628	\$29,930	\$31,727	\$2,430	\$2,068	\$1,736

(a) Corporate assets consist principally of cash and cash equivalents, short-term investments, and property, plant and equipment.

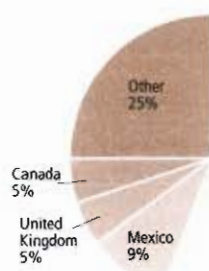
Total Assets



Capital Spending



Net Revenue



Long-Lived Assets



	Amortization of Intangible Assets			Depreciation and Other Amortization		
	2007	2006	2005	2007	2006	2005
FLNA	\$ 9	\$ 9	\$ 3	\$ 437	\$ 432	\$ 419
PBNA	11	77	76	302	282	264
PI	38	76	71	564	478	420
QFNA	—	—	—	34	33	34
Total division	58	162	150	1,337	1,225	1,137
Corporate	—	—	—	31	19	21
	\$58	\$162	\$150	\$1,368	\$1,244	\$1,158

	Net Revenue <sup>(a)</sup>			Long-Lived Assets <sup>(b)</sup>		
	2007	2006	2005	2007	2006	2005
U.S.	\$21,978	\$20,788	\$19,937	\$12,498	\$11,515	\$10,723
Mexico	3,498	3,228	3,095	1,067	996	902
United Kingdom	1,987	1,839	1,821	2,090	1,995	1,715
Canada	1,961	1,702	1,509	699	589	582
All other countries	10,050	7,580	6,200	6,441	4,725	3,948
	\$39,474	\$35,137	\$32,562	\$22,795	\$19,820	\$17,870

(a) Represents net revenue from businesses operating in these countries.

(b) Long-lived assets represent property, plant and equipment, nonamortizable intangible assets, amortizable intangible assets, and investments in noncontrolled affiliates. These assets are reported in the country where they are primarily used.



## Note 2 — Our Significant Accounting Policies

### Revenue Recognition

We recognize revenue upon shipment or delivery to our customers based on written sales terms that do not allow for a right of return. However, our policy for DSD and chilled products is to remove and replace damaged and out-of-date products from store shelves to ensure that our consumers receive the product quality and freshness that they expect. Similarly, our policy for warehouse-distributed products is to replace damaged and out-of-date products. Based on our historical experience with this practice, we have reserved for anticipated damaged and out-of-date products. For additional unaudited information on our revenue recognition and related policies, including our policy on bad debts, see "Our Critical Accounting Policies" in Management's Discussion and Analysis. We are exposed to concentration of credit risk by our customers, Wal-Mart and PBG. In 2007, Wal-Mart (including Sam's) represented approximately 12% of our total net revenue, including concentrate sales to our bottlers which are used in finished goods sold by them to Wal-Mart; and PBG represented approximately 9%. We have not experienced credit issues with these customers.

### Sales Incentives and Other Marketplace Spending

We offer sales incentives and discounts through various programs to our customers and consumers. Sales incentives and discounts are accounted for as a reduction of revenue and totaled \$11.3 billion in 2007, \$10.1 billion in 2006 and \$8.9 billion in 2005. While most of these incentive arrangements have terms of no more than one year, certain arrangements, such as fountain pouring rights, extend beyond one year. Costs incurred to obtain these arrangements are recognized over the shorter of the economic or contractual life, as a reduction of revenue, and the remaining balances of \$287 million at December 29, 2007 and \$297 million at December 30, 2006 are included in current assets and other assets on our

balance sheet. For additional unaudited information on our sales incentives, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

Other marketplace spending, which includes the costs of advertising and other marketing activities, totaled \$2.9 billion in 2007, \$2.7 billion in 2006 and \$2.8 billion in 2005 and is reported as selling, general and administrative expenses. Included in these amounts were advertising expenses of \$1.9 billion in 2007, \$1.7 billion in 2006 and \$1.8 billion in 2005. Deferred advertising costs are not expensed until the year first used and consist of:

- media and personal service prepayments,
- promotional materials in inventory, and
- production costs of future media advertising.

Deferred advertising costs of \$160 million and \$171 million at year-end 2007 and 2006, respectively, are classified as prepaid expenses on our balance sheet.

### Distribution Costs

Distribution costs, including the costs of shipping and handling activities, are reported as selling, general and administrative expenses. Shipping and handling expenses were \$5.1 billion in 2007, \$4.6 billion in 2006 and \$4.1 billion in 2005.

### Cash Equivalents

Cash equivalents are investments with original maturities of three months or less which we do not intend to rollover beyond three months.

### Software Costs

We capitalize certain computer software and software development costs incurred in connection with developing or obtaining computer software for internal use when both the preliminary project stage is completed and it is probable that the software will be used as intended. Capitalized software costs include only (i) external direct costs of materials and services utilized in developing or obtaining computer software, (ii) compensation

and related benefits for employees who are directly associated with the software project and (iii) interest costs incurred while developing internal-use computer software. Capitalized software costs are included in property, plant and equipment on our balance sheet and amortized on a straight-line basis when placed into service over the estimated useful lives of the software, which approximate five to seven years. Net capitalized software and development costs were \$652 million at December 29, 2007 and \$537 million at December 30, 2006.

### Commitments and Contingencies

We are subject to various claims and contingencies related to lawsuits, taxes and environmental matters, as well as commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable. For additional information on our commitments, see Note 9.

### Research and Development

We engage in a variety of research and development activities. These activities principally involve the development of new products, improvement in the quality of existing products, improvement and modernization of production processes, and the development and implementation of new technologies to enhance the quality and value of both current and proposed product lines. Consumer research is excluded from research and development costs and included in other marketing costs. Research and development costs were \$364 million in 2007, \$282 million in 2006 and \$280 million in 2005 and are reported as selling, general and administrative expenses.

## Other Significant Accounting Policies

Our other significant accounting policies are disclosed as follows:

- Property, Plant and Equipment and Intangible Assets — Note 4, and for additional unaudited information on brands and goodwill, see “Our Critical Accounting Policies” in Management’s Discussion and Analysis.
- Income Taxes — Note 5, and for additional unaudited information, see “Our Critical Accounting Policies” in Management’s Discussion and Analysis.
- Pension, Retiree Medical and Savings Plans — Note 7, and for additional unaudited information, see “Our Critical Accounting Policies” in Management’s Discussion and Analysis.
- Risk Management — Note 10, and for additional unaudited information, see “Our Business Risks” in Management’s Discussion and Analysis.

## Recent Accounting Pronouncements

In September 2006, the SEC issued SAB 108 to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that we quantify misstatements based on their impact on each of our financial statements and related disclosures. On December 30, 2006, we adopted SAB 108. Our adoption of SAB 108 did not impact our financial statements.

In September 2006, the FASB issued SFAS 157 which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective as of the beginning of our 2008 fiscal year. However, the FASB has deferred the effective date of SFAS 157, until the beginning of our 2009 fiscal year, as it relates to fair value measurement requirements for nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis. We

are currently evaluating the impact of adopting SFAS 157 on our financial statements. We do not expect our adoption to have a material impact on our financial statements.

In February 2007, the FASB issued SFAS 159 which permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS 159 are effective as of the beginning of our 2008 fiscal year. Our adoption of SFAS 159 will not impact our financial statements.

In December 2007, the FASB issued SFAS 141R and SFAS 160 to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. The provisions of SFAS 141R and SFAS 160 are effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact of adopting SFAS 141R and SFAS 160 on our financial statements.

## Note 3 — Restructuring and Impairment Charges

### 2007 Restructuring and Impairment Charge

In 2007, we incurred a charge of \$102 million (\$70 million after-tax or \$0.04 per share) in conjunction with restructuring actions primarily to close certain plants and rationalize other production lines across

FLNA, PBNA and PI. The charge was comprised of \$57 million of asset impairments, \$33 million of severance and other employee-related costs and \$12 million of other costs and was recorded in selling, general and administrative expenses in our income statement. Employee-related

costs primarily reflect the termination costs for approximately 1,100 employees. Substantially all cash payments related to this charge are expected to be paid by the end of 2008.

A summary of the restructuring and impairment charge by division is as follows:

	Asset Impairments	Severance and Other Employee Costs	Other Costs	Total
FLNA	\$19	\$ —	\$ 9	\$ 28
PBNA	—	11	—	11
PI	38	22	3	63
	\$57	\$33	\$12	\$102

### 2006 Restructuring and Impairment Charge

In 2006, we incurred a charge of \$67 million (\$43 million after-tax or \$0.03 per share) in conjunction with consolidating the manufacturing network at FLNA

by closing two plants in the U.S., and rationalizing other assets, to increase manufacturing productivity and supply chain efficiencies. The charge was comprised of \$43 million of asset impairments, \$14 million of severance and other

employee-related costs and \$10 million of other costs. Employee-related costs primarily reflect the termination costs for approximately 380 employees. All cash payments related to this charge were paid by the end of 2007.

### 2005 Restructuring Charge

In 2005, we incurred a charge of \$83 million (\$55 million after-tax or \$0.03 per share) in conjunction with actions taken to reduce costs in our operations, principally

through headcount reductions. Of this charge, \$34 million related to FLNA, \$21 million to PBNA, \$16 million to PI and \$12 million to Corporate. Most of this charge related to the termination

of approximately 700 employees. As of December 30, 2006, all terminations had occurred, and as of December 29, 2007, no accrual remains.

## Note 4 — Property, Plant and Equipment and Intangible Assets

	Average Useful Life	2007	2006	2005
<b>Property, plant and equipment, net</b>				
Land and improvements	10 – 34 yrs.	\$ 864	\$ 756	
Buildings and improvements	20 – 44	4,577	4,095	
Machinery and equipment, including fleet and software	5 – 14	14,471	12,768	
Construction in progress		1,984	1,439	
		21,896	19,058	
Accumulated depreciation		(10,668)	(9,371)	
		\$ 11,228	\$ 9,687	
Depreciation expense		\$1,304	\$1,182	\$1,103
<b>Amortizable intangible assets, net</b>				
Brands	5 – 40	\$ 1,476	\$1,288	
Other identifiable intangibles	3 – 15	344	290	
		1,820	1,578	
Accumulated amortization		(1,024)	(941)	
		\$ 796	\$ 637	
Amortization expense		\$58	\$162	\$150

Property, plant and equipment is recorded at historical cost. Depreciation and amortization are recognized on a straight-line basis over an asset's estimated useful life. Land is not depreciated and construction in progress is not depreciated until ready for service. Amortization

of intangible assets for each of the next five years, based on average 2007 foreign exchange rates, is expected to be \$62 million in 2008, \$60 million in 2009, \$60 million in 2010, \$59 million in 2011 and \$59 million in 2012.



Depreciable and amortizable assets are only evaluated for impairment upon a significant change in the operating or macroeconomic environment. In these circumstances, if an evaluation of the undiscounted cash flows indicates impairment, the asset is written down to its estimated fair value, which is based on discounted future cash flows. Useful lives are periodically evaluated to determine whether events or circumstances have

occurred which indicate the need for revision. For additional unaudited information on our amortizable brand policies, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

#### Nonamortizable Intangible Assets

Perpetual brands and goodwill are assessed for impairment at least annually. If the carrying amount of a perpetual brand exceeds its fair value, as determined

by its discounted cash flows, an impairment loss is recognized in an amount equal to that excess. No impairment charges resulted from the required impairment evaluations. The change in the book value of nonamortizable intangible assets is as follows:

	Balance, Beginning 2006	Acquisitions	Translation and Other	Balance, End of 2006	Acquisitions	Translation and Other	Balance, End of 2007
<b>FLNA</b>							
Goodwill	\$ 145	\$139	\$ —	\$ 284	\$ —	\$ 27	\$ 311
<b>PBNA</b>							
Goodwill	2,164	39	—	2,203	146	20	2,369
Brands	59	—	—	59	—	—	59
	2,223	39	—	2,262	146	20	2,428
<b>PI</b>							
Goodwill	1,604	183	145	1,932	236	146	2,314
Brands	1,026	—	127	1,153	—	36	1,189
	2,630	183	272	3,085	236	182	3,503
<b>QFNA</b>							
Goodwill	175	—	—	175	—	—	175
<b>Corporate</b>							
Pension intangible	1	—	(1)	—	—	—	—
Total goodwill	4,088	361	145	4,594	382	193	5,169
Total brands	1,085	—	127	1,212	—	36	1,248
Total pension intangible	1	—	(1)	—	—	—	—
	\$5,174	\$361	\$271	\$5,806	\$382	\$229	\$6,417

## Note 5 — Income Taxes

	2007	2006	2005
<b>Income before income taxes</b>			
U.S. ....	\$4,085	\$3,844	\$3,175
Foreign ....	3,546	3,145	3,207
	<b>\$7,631</b>	<b>\$6,989</b>	<b>\$6,382</b>
<b>Provision for income taxes</b>			
Current: U.S. Federal ....	\$1,422	\$ 776	\$1,638
Foreign.....	489	569	426
State .....	104	56	118
	<b>2,015</b>	<b>1,401</b>	<b>2,182</b>
Deferred: U.S. Federal .....	22	(31)	137
Foreign.....	(66)	(16)	(26)
State .....	2	(7)	11
	<b>(42)</b>	<b>(54)</b>	<b>122</b>
	<b>\$1,973</b>	<b>\$1,347</b>	<b>\$2,304</b>
<b>Tax rate reconciliation</b>			
U.S. Federal statutory tax rate .....	35.0%	35.0%	35.0%
State income tax, net of U.S. Federal tax benefit .....	0.9	0.5	1.4
Lower taxes on foreign results .....	(6.5)	(6.5)	(6.5)
Tax settlements .....	(1.7)	(8.6)	—
Taxes on AJCA repatriation .....	—	—	7.0
Other, net.....	(1.8)	(1.1)	(0.8)
Annual tax rate .....	<b>25.9%</b>	<b>19.3%</b>	<b>36.1%</b>
<b>Deferred tax liabilities</b>			
Investments in noncontrolled affiliates .....	\$1,163	\$1,103	
Property, plant and equipment .....	828	784	
Intangible assets other than nondeductible goodwill.....	280	169	
Pension benefits .....	148	—	
Other.....	136	248	
Gross deferred tax liabilities .....	<b>2,555</b>	<b>2,304</b>	
<b>Deferred tax assets</b>			
Net carryforwards.....	722	667	
Stock-based compensation .....	425	443	
Retiree medical benefits .....	528	541	
Other employee-related benefits.....	447	342	
Pension benefits .....	—	38	
Deductible state tax and interest benefits .....	189	—	
Other.....	618	592	
Gross deferred tax assets .....	<b>2,929</b>	<b>2,623</b>	
Valuation allowances .....	(695)	(624)	
Deferred tax assets, net .....	<b>2,234</b>	<b>1,999</b>	
Net deferred tax liabilities.....	<b>\$ 321</b>	<b>\$ 305</b>	
Deferred taxes included within:			
Assets:			
Prepaid expenses and other current assets .....	<b>\$325</b>	<b>\$223</b>	
Liabilities:			
Deferred income taxes .....	<b>\$646</b>	<b>\$528</b>	
<b>Analysis of valuation allowances</b>			
Balance, beginning of year .....	\$624	\$532	\$564
Provision/(benefit) .....	39	71	(28)
Other additions/(deductions) .....	32	21	(4)
Balance, end of year .....	<b>\$695</b>	<b>\$624</b>	<b>\$532</b>

For additional unaudited information on our income tax policies, including our reserves for income taxes, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

In 2007, we recognized \$129 million of non-cash tax benefits related to the favorable resolution of certain foreign tax matters. In 2006, we recognized non-cash tax benefits of \$602 million, substantially all of which related to the IRS's examination of our consolidated income tax returns for the years 1998 through 2002. In 2005, we repatriated approximately \$7.5 billion in earnings previously considered indefinitely reinvested outside the U.S. and recorded income tax expense of \$460 million related to the AJCA. The AJCA created a one-time incentive for U.S. corporations to repatriate undistributed international earnings by providing an 85% dividends received deduction.

## Reserves

A number of years may elapse before a particular matter, for which we have established a reserve, is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions and the related open tax audits are as follows:

- the U.S. — in 2006, the IRS issued a Revenue Agent's Report (RAR) related to the years 1998 through 2002. We are in agreement with their conclusion, except for one matter which we continue to dispute. We made the appropriate cash payment during 2006

to settle the agreed-upon issues, and we do not anticipate the resolution of the open matter will significantly impact our financial statements. In 2007, the IRS initiated their audit of our U.S. tax returns for the years 2003 through 2005;

- Mexico — in 2006, we completed and agreed with the conclusions of an audit of our tax returns for the years 2001 through 2005;
- the United Kingdom — audits have been completed for all taxable years prior to 2004; and
- Canada — audits have been completed for all taxable years through 2004. We are disputing some of the adjustments for the years 1999 through 2004. We do not anticipate the resolution of the 1999 through 2004 tax years will significantly impact our financial statements. The Canadian tax return for 2005 is currently under audit and no adjustments are expected to significantly impact our financial statements.

While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our reserves reflect the probable outcome of known tax contingencies. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular issue would usually require the use of cash. Favorable resolution would be recognized as a reduction to our annual tax rate in the year of resolution.

For further unaudited information on the impact of the resolution of open tax issues, see "Other Consolidated Results."

In 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. We adopted the provisions of FIN 48 as of the beginning of our 2007 fiscal year. As a result of our adoption of FIN 48, we recognized a \$7 million decrease to reserves for income taxes, with a corresponding increase to opening retained earnings.

As of December 29, 2007, the total gross amount of reserves for income taxes, reported in other liabilities, was \$1.5 billion. Of that amount, \$1.4 billion, if recognized, would affect our effective tax rate. Any prospective adjustments to our reserves for income taxes will be recorded as an increase or decrease to our provision for income taxes and would impact our effective tax rate. In addition, we accrue interest related to reserves for income taxes in our provision for income taxes and any associated penalties are recorded in selling, general and administrative expenses. The gross amount of interest accrued, reported in other liabilities, was \$338 million as of December 29, 2007, of which \$34 million was recognized in 2007.

A rollforward of our reserves in 2007 for all federal, state and foreign tax jurisdictions, is as follows:

Balance, beginning of year	\$1,435
FIN 48 adoption adjustment to retained earnings	(7)
Reclassification of deductible state tax and interest benefits to other balance sheet accounts	(144)
Adjusted balance, beginning of year	1,284
Additions for tax positions related to the current year	264
Additions for tax positions from prior years	151
Reductions for tax positions from prior years	(73)
Settlement payments	(174)
Statute of limitations expiration	(7)
Currency translation adjustment	16
Balance, end of year	\$1,461



## Carryforwards and Allowances

Operating loss carryforwards totaling \$7.1 billion at year-end 2007 are being carried forward in a number of foreign and state jurisdictions where we are permitted to use tax operating losses from prior periods to reduce future taxable income. These operating losses will expire as follows: \$0.5 billion in 2008, \$5.6 billion between 2009 and 2027 and \$1.0 billion may be carried forward indefinitely. We

establish valuation allowances for our deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

## Undistributed International Earnings

At December 29, 2007, we had approximately \$14.7 billion of undistributed international earnings. We intend to continue to reinvest earnings outside the U.S.

for the foreseeable future and, therefore, have not recognized any U.S. tax expense on these earnings.

## Mexico Tax Legislation

In October 2007, Mexico enacted new tax legislation effective January 1, 2008. The deferred tax impact was not material and is reflected in our effective tax rate in 2007.

# Note 6 — Stock-Based Compensation

Our stock-based compensation program is a broad-based program designed to attract and retain employees while also aligning employees' interests with the interests of our shareholders. A majority of our employees participate in our stock-based compensation program, which includes our broad-based SharePower program established in 1989 to grant an annual award of stock options to all eligible employees, based on job level or classification and, in the case of international employees, tenure as well. In addition, members of our Board of Directors participate in our stock-based compensation program in connection with their service on our Board. Beginning in 2007, members of our Board of Directors no longer receive stock-based compensation grants. Stock options and restricted stock units (RSU) are granted to employees under the shareholder-approved 2007 Long-Term Incentive Plan (LTIP), our only active stock-based plan. Stock-based compensation expense was \$260 million in 2007, \$270 million in 2006 and \$311 million in 2005. Related income tax benefits recognized in earnings were \$77 million in 2007, \$80 million in 2006 and \$87 million

in 2005. Stock-based compensation cost capitalized in connection with our ongoing business transformation initiative was \$3 million in 2007, \$3 million in 2006 and \$4 million in 2005. At year-end 2007, 67 million shares were available for future stock-based compensation grants.

## Method of Accounting and Our Assumptions

We account for our employee stock options, which include grants under our executive program and broad-based SharePower program, under the fair value method of accounting using a Black-Scholes valuation model to measure stock option expense at the date of grant. All stock option grants have an exercise price equal to the fair market value of our common stock on the date of grant and generally have a 10-year term. The fair value of stock option grants is amortized to expense over the vesting period, generally three years. Executives who are awarded long-term incentives based on their performance are offered the choice of stock options or RSUs. Executives who elect RSUs receive one RSU for every four stock options that would have otherwise

been granted. Senior officers do not have a choice and are granted 50% stock options and 50% RSUs. RSU expense is based on the fair value of PepsiCo stock on the date of grant and is amortized over the vesting period, generally three years. Each RSU is settled in a share of our stock after the vesting period. Vesting of RSU awards for senior officers is contingent upon the achievement of pre-established performance targets. There have been no reductions to the exercise price of previously issued awards, and any repricing of awards would require approval of our shareholders.

On January 1, 2006, we adopted SFAS 123R under the modified prospective method. Since we had previously accounted for our stock-based compensation plans under the fair value provisions of SFAS 123, our adoption did not significantly impact our financial position or our results of operations. Under SFAS 123R, actual tax benefits recognized in excess of tax benefits previously established upon grant are reported as a financing cash inflow. Prior to adoption, such excess tax benefits were reported as an operating cash inflow.

Our weighted-average Black-Scholes fair value assumptions are as follows:

	2007	2006	2005
Expected life	6 yrs.	6 yrs.	6 yrs.
Risk free interest rate	4.8%	4.5%	3.8%
Expected volatility	15%	18%	23%
Expected dividend yield	1.9%	1.9%	1.8%

The expected life is the period over which our employee groups are expected to hold their options. It is based on our historical experience with similar grants. The risk free interest rate is based on the expected U.S. Treasury rate over the

expected life. Volatility reflects movements in our stock price over the most recent historical period equivalent to the expected life. Dividend yield is estimated over the expected life based on our stated dividend policy and forecasts

of net income, share repurchases and stock price.

A summary of our stock-based compensation activity for the year ended December 29, 2007 is presented below:

<b>Our Stock Option Activity</b>	Options <sup>(a)</sup>	Average Price <sup>(b)</sup>	Average Life (years) <sup>(c)</sup>	Aggregate Intrinsic Value <sup>(d)</sup>
Outstanding at December 30, 2006	127,749	\$44.24		
Granted	11,671	65.12		
Exercised	(28,116)	39.34		
Forfeited/expired	(2,496)	56.04		
Outstanding at December 29, 2007	108,808	\$47.47	5.26	\$3,216,316
Exercisable at December 29, 2007	75,365	\$42.65	3.97	\$2,590,994

(a) Options are in thousands and include options previously granted under Quaker plans. No additional options or shares may be granted under the Quaker plans.

(b) Weighted-average exercise price.

(c) Weighted-average contractual life remaining.

(d) In thousands.

<b>Our RSU Activity</b>	RSUs <sup>(a)</sup>	Average Intrinsic Value <sup>(b)</sup>	Average Life (years) <sup>(c)</sup>	Aggregate Intrinsic Value <sup>(d)</sup>
Outstanding at December 30, 2006	7,885	\$53.38		
Granted	2,342	65.21		
Converted	(2,361)	47.83		
Forfeited/expired	(496)	\$57.73		
Outstanding at December 29, 2007	7,370	\$58.63	1.28	\$567,706

(a) RSUs are in thousands.

(b) Weighted-average intrinsic value at grant date.

(c) Weighted-average contractual life remaining.

(d) In thousands.

<b>Other Stock-Based Compensation Data</b>	2007	2006	2005
<b>Stock Options</b>			
Weighted-average fair value of options granted	\$13.56	\$12.81	\$13.45
Total intrinsic value of options exercised <sup>(a)</sup>	\$826,913	\$686,242	\$632,603
<b>RSUs</b>			
Total number of RSUs granted <sup>(a)</sup>	2,342	2,992	3,097
Weighted-average intrinsic value of RSUs granted	\$65.21	\$58.22	\$53.83
Total intrinsic value of RSUs converted <sup>(a)</sup>	\$125,514	\$10,934	\$4,974

(a) In thousands.

At December 29, 2007, there was \$287 million of total unrecognized compensation cost related to nonvested share-based compensation grants. This unrecognized compensation is expected to be recognized over a weighted-average period of 1.5 years.

## Note 7 — Pension, Retiree Medical and Savings Plans

Our pension plans cover full-time employees in the U.S. and certain international employees. Benefits are determined based on either years of service or a combination of years of service and earnings. U.S. and Canada retirees are also eligible for medical and life insurance benefits (retiree medical) if they meet age and service requirements. Generally, our share of retiree medical costs is capped at specified dollar amounts, which vary based upon years of service, with retirees contributing the remainder of the costs.

Other gains and losses resulting from actual experience differing from our assumptions and from changes in our assumptions are also determined at each measurement date. If this net accumulated gain or loss exceeds 10% of the greater of plan assets or liabilities, a portion of the net gain or loss is included

in expense for the following year. The cost or benefit of plan changes that increase or decrease benefits for prior employee service (prior service cost/(credit)) is included in earnings on a straight-line basis over the average remaining service period of active plan participants, which is approximately 11 years for pension expense and approximately 13 years for retiree medical expense.

On December 30, 2006, we adopted SFAS 158. In connection with our adoption, we recognized the funded status of our Plans on our balance sheet as of December 30, 2006 with subsequent changes in the funded status recognized in comprehensive income in the years in which they occur. In accordance with SFAS 158, amounts prior to the year of adoption have not been adjusted. SFAS 158 also requires that, no later than 2008, our

assumptions used to measure our annual pension and retiree medical expense be determined as of the balance sheet date, and all plan assets and liabilities be reported as of that date. Accordingly, as of the beginning of our 2008 fiscal year, we will change the measurement date for our annual pension and retiree medical expense and all plan assets and liabilities from September 30 to our year-end balance sheet date. As a result of this change in measurement date, we will record an after-tax \$7 million reduction to 2008 opening shareholders' equity which will be reflected in our 2008 first quarter Form 10-Q.

Selected financial information for our pension and retiree medical plans is as follows:



	Pension				Retiree Medical	
	2007	2006	2007	2006	2007	2006
	U.S.		International			
<b>Change in projected benefit liability</b>						
Liability at beginning of year	\$5,947	\$5,771	\$1,511	\$1,263	\$1,370	\$1,312
Service cost	244	245	59	52	48	46
Interest cost	338	319	81	68	77	72
Plan amendments	147	11	4	8	—	—
Participant contributions	—	—	14	12	—	—
Experience (gain)/loss	(309)	(163)	(155)	20	(80)	(34)
Benefit payments	(319)	(233)	(46)	(38)	(77)	(75)
Settlement/curtailment loss	—	(7)	—	(6)	—	—
Special termination benefits	—	4	—	—	—	1
Foreign currency adjustment	—	—	96	126	9	—
Other	—	—	31	6	7	48
Liability at end of year	\$6,048	\$5,947	\$1,595	\$1,511	\$1,354	\$1,370
<b>Change in fair value of plan assets</b>						
Fair value at beginning of year	\$5,378	\$5,086	\$1,330	\$1,099	\$ —	\$ —
Actual return on plan assets	654	513	122	112	—	—
Employer contributions/funding	69	19	58	30	77	75
Participant contributions	—	—	14	12	—	—
Benefit payments	(319)	(233)	(46)	(38)	(77)	(75)
Settlement/curtailment loss	—	(7)	—	—	—	—
Foreign currency adjustment	—	—	91	116	—	—
Other	—	—	26	(1)	—	—
Fair value at end of year	\$5,782	\$5,378	\$1,595	\$1,330	\$ —	\$ —
<b>Reconciliation of funded status</b>						
Funded status	\$(266)	\$(569)	\$ —	\$(181)	\$(1,354)	\$(1,370)
Adjustment for fourth quarter contributions	15	6	107	13	19	16
Adjustment for fourth quarter special termination benefits	(5)	—	—	—	—	—
Net amount recognized	\$(256)	\$(563)	\$107	\$(168)	\$(1,335)	\$(1,354)
<b>Amounts recognized</b>						
Other assets	\$ 440	\$ 185	\$187	\$ 6	\$ —	\$ —
Other current liabilities	(24)	(19)	(3)	(2)	(88)	(84)
Other liabilities	(672)	(729)	(77)	(172)	(1,247)	(1,270)
Net amount recognized	\$(256)	\$(563)	\$107	\$(168)	\$(1,335)	\$(1,354)
<b>Amounts included in accumulated other comprehensive loss (pre-tax)</b>						
Net loss	\$1,136	\$1,836	\$287	\$475	\$276	\$364
Prior service cost/(credit)	156	13	28	24	(88)	(101)
Total	\$1,292	\$1,849	\$315	\$499	\$188	\$263
<b>Components of the (decrease)/increase in net loss</b>						
Change in discount rate	\$(292)	\$(123)	\$(224)	\$ 2	\$(50)	\$(30)
Employee-related assumption changes	—	(45)	61	6	(9)	—
Liability-related experience different from assumptions	(17)	5	7	6	(21)	(4)
Actual asset return different from expected return	(255)	(122)	(25)	(30)	—	—
Amortization of losses	(136)	(164)	(30)	(29)	(18)	(21)
Other, including foreign currency adjustments and 2003 Medicare Act	—	(3)	23	46	10	17
Total	\$(700)	\$(452)	\$(188)	\$ 1	\$(88)	\$(38)
Liability at end of year for service to date	\$5,026	\$4,998	\$1,324	\$1,239		

Components of benefit expense are as follows:

	Pension						Retiree Medical		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
	U.S.			International					
<b>Components of benefit expense</b>									
Service cost	\$ 244	\$ 245	\$ 213	\$ 59	\$ 52	\$ 32	\$ 48	\$ 46	\$ 40
Interest cost	338	319	296	81	68	55	77	72	78
Expected return on plan assets	(399)	(391)	(344)	(97)	(81)	(69)	—	—	—
Amortization of prior service cost/(credit)	5	3	3	3	2	1	(13)	(13)	(11)
Amortization of net loss	136	164	106	30	29	15	18	21	26
	324	340	274	76	70	34	130	126	133
Settlement/curtailment loss	—	3	—	—	—	—	—	—	—
Special termination benefits	5	4	21	—	—	—	—	1	2
<b>Total</b>	<b>\$ 329</b>	<b>\$ 347</b>	<b>\$ 295</b>	<b>\$ 76</b>	<b>\$ 70</b>	<b>\$ 34</b>	<b>\$ 130</b>	<b>\$ 127</b>	<b>\$ 135</b>

The estimated amounts to be amortized from accumulated other comprehensive loss into benefit expense in 2008 for our pension and retiree medical plans are as follows:

	Pension		Retiree Medical
	U.S.	International	
Net loss	\$56	\$20	\$ 7
Prior service cost/(credit)	20	3	(12)
<b>Total</b>	<b>\$76</b>	<b>\$23</b>	<b>\$ (5)</b>

The following table provides the weighted-average assumptions used to determine projected benefit liability and benefit expense for our pension and retiree medical plans:

	Pension						Retiree Medical		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
	U.S.			International					
<b>Weighted-average assumptions</b>									
Liability discount rate	6.2%	5.8%	5.7%	5.8%	5.2%	5.1%	6.1%	5.8%	5.7%
Expense discount rate	5.8%	5.7%	6.1%	5.2%	5.1%	6.1%	5.8%	5.7%	6.1%
Expected return on plan assets	7.8%	7.8%	7.8%	7.3%	7.3%	8.0%			
Rate of salary increases	4.7%	4.5%	4.4%	3.9%	3.9%	4.1%			

The following table provides selected information about plans with liability for service to date and total benefit liability in excess of plan assets:

	Pension				Retiree Medical	
	2007	2006	2007	2006	2007	2006
	U.S.		International			
<b>Selected information for plans with liability for service to date in excess of plan assets</b>						
Liability for service to date	\$(364)	\$(387)	\$(72)	\$(286)		
Fair value of plan assets	\$—	\$1	\$13	\$237		
<b>Selected information for plans with benefit liability in excess of plan assets</b>						
Benefit liability	\$(707)	\$(754)	\$(384)	\$(1,387)	\$(1,354)	\$(1,370)
Fair value of plan assets	\$—	\$1	\$278	\$1,200		

Of the total projected pension benefit liability at year-end 2007, \$658 million relates to plans that we do not fund because the funding of such plans does not receive favorable tax treatment.



## Future Benefit Payments and Funding

Our estimated future benefit payments are as follows:

	2008	2009	2010	2011	2012	2013-17
Pension	\$290	\$315	\$350	\$385	\$425	\$2,755
Retiree medical <sup>(a)</sup>	\$95	\$100	\$105	\$110	\$115	\$640

(a) Expected future benefit payments for our retiree medical plans do not reflect any estimated subsidies expected to be received under the 2003 Medicare Act. Subsidies are expected to be approximately \$10 million for each of the years from 2008 through 2012 and approximately \$70 million in total for 2013 through 2017.

These future benefits to beneficiaries include payments from both funded and unfunded pension plans.

In 2008, we expect to make pension contributions of up to \$150 million, with up to \$75 million expected to be discretionary. Our cash payments for retiree medical are estimated to be approximately \$85 million in 2008.

### Pension Assets

Our pension plan investment strategy is reviewed annually and is established based upon plan liabilities, an evaluation of market conditions, tolerance for risk, and cash requirements for benefit payments. Our investment objective is to

ensure that funds are available to meet the plans' benefit obligations when they are due. Our overall investment strategy is to prudently invest plan assets in high-quality and diversified equity and debt securities to achieve our long-term return expectation. As part of our investment strategy, we employ certain equity strategies which, in addition to investing in U.S. and international common and preferred stock, include investing in certain equity- and debt-based securities used collectively to generate returns in excess of certain equity-based indices. Debt-based securities represent approximately a third of our equity strategy portfolio as of year-end

2007 and 2006. Our investment policy also permits the use of derivative instruments to enhance the overall return of the portfolio. Our expected long-term rate of return on U.S. plan assets is 7.8%, reflecting estimated long-term rates of return of 9.3% from our equity strategies, and 5.8% from our fixed income strategies. Our target investment allocation is 60% for equity strategies and 40% for fixed income strategies. Our actual pension plan asset allocations, consistent with our investment approach and with how we view and manage our overall investment portfolio, for the plan years 2007 and 2006, are as follows:

Asset Category	Actual Allocation	
	2007	2006
Equity strategies	61%	61%
Fixed income strategies	38%	39%
Other, primarily cash	1%	—
Total	100%	100%

The expected return on pension plan assets is based on our historical experience, our pension plan investment strategy and our expectations for long-term rates of return. We use a market-related valuation method for recognizing investment gains or losses. For this purpose, investment gains or losses are the difference between the expected and actual return based on the market-related value of assets. This market-related valuation method recognizes investment gains or losses over a five-year period from the year in which they occur, which has the effect of reducing year-to-year volatility. Pension expense in future periods will be impacted as gains or losses are recognized

in the market-related value of assets over the five-year period.

Pension assets include 5.5 million shares of PepsiCo common stock with a market value of \$401 million in 2007, and 5.5 million shares with a market value of \$358 million in 2006. Our investment policy limits the investment in PepsiCo stock at the time of investment to 10% of the fair value of plan assets.

As of December 29, 2007, approximately 3%, or approximately \$165 million, of securities in the investment portfolio of our U.S. pension plans are subprime mortgage holdings. We do not believe that the ultimate realization of such investments will result in a material impact to future

pension expense, future contributions or the funded status of our plans.

### Retiree Medical Cost Trend Rates

An average increase of 8.5% in the cost of covered retiree medical benefits is assumed for 2008. This average increase is then projected to decline gradually to 5% in 2014 and thereafter. These assumed health care cost trend rates have an impact on the retiree medical plan expense and liability. However, the cap on our share of retiree medical costs limits the impact. A 1-percentage-point change in the assumed health care trend rate would have the following effects:



	1% Increase	1% Decrease
2007 service and interest cost components	\$5	\$(4)
2007 benefit liability	\$55	\$(48)

### Savings Plan

Our U.S. employees are eligible to participate in 401(k) savings plans, which are voluntary defined contribution plans. The plans are designed to help employees accumulate additional savings for

retirement. We make matching contributions on a portion of eligible pay based on years of service. In 2007 and 2006, our matching contributions were \$62 million and \$56 million, respectively.

For additional unaudited information on our pension and retiree medical plans and related accounting policies and assumptions, see "Our Critical Accounting Policies" in Management's Discussion and Analysis.

## Note 8 — Noncontrolled Bottling Affiliates

Our most significant noncontrolled bottling affiliates are PBG and PAS. Sales to PBG reflect approximately 9% of our total net revenue in 2007 and approximately 10% in 2006 and 2005.

### The Pepsi Bottling Group

In addition to approximately 35% and 38% of PBG's outstanding common stock that we own at year-end 2007 and 2006, respectively, we own 100% of PBG's class B common stock and approximately 7%

of the equity of Bottling Group, LLC, PBG's principal operating subsidiary. Bottling equity income includes \$174 million, \$186 million and \$126 million of pre-tax gains on our sales of PBG stock in 2007, 2006 and 2005, respectively.

PBG's summarized financial information is as follows:

	2007	2006	2005
Current assets	\$ 3,086	\$ 2,749	
Noncurrent assets	10,029	9,178	
Total assets	\$13,115	\$11,927	
Current liabilities	\$ 2,215	\$2,051	
Noncurrent liabilities	7,312	7,252	
Minority interest	973	540	
Total liabilities	\$10,500	\$9,843	
Our investment	\$2,022	\$1,842	
Net revenue	\$13,591	\$12,730	\$11,885
Gross profit	\$6,221	\$5,830	\$5,540
Operating profit	\$1,071	\$1,017	\$1,023
Net income	\$532	\$522	\$466

Our investment in PBG, which includes the related goodwill, was \$507 million and \$500 million higher than our ownership interest in their net assets at year-end 2007 and 2006, respectively. Based upon the quoted closing price of PBG shares at year-end 2007 and 2006, the calculated

market value of our shares in PBG exceeded our investment balance, excluding our investment in Bottling Group, LLC, by approximately \$1.7 billion and \$1.4 billion, respectively.

Additionally, in 2007, we formed a joint venture with PBG, comprising our

concentrate and PBG's bottling businesses in Russia. PBG holds a 60% majority interest in the joint venture and consolidates the entity. We account for our interest of 40% under the equity method of accounting.

## PepsiAmericas

At year-end 2007 and 2006, we owned approximately 44% of PAS, and their summarized financial information is as follows:

	2007	2006	2005
Current assets	\$ 922	\$ 675	
Noncurrent assets	4,386	3,532	
Total assets	\$5,308	\$4,207	
Current liabilities	\$ 903	\$ 694	
Noncurrent liabilities	2,274	1,909	
Minority interest	273	—	
Total liabilities	\$3,450	\$2,603	
Our investment	\$1,118	\$1,028	
Net revenue	\$4,480	\$3,972	\$3,726
Gross profit	\$1,823	\$1,608	\$1,562
Operating profit	\$436	\$356	\$393
Net income	\$212	\$158	\$195

Our investment in PAS, which includes the related goodwill, was \$303 million and \$316 million higher than our ownership interest in their net assets at year-end 2007 and 2006, respectively. Based upon the quoted closing price of PAS shares at year-end 2007 and 2006, the calculated market value of our shares in PAS exceeded our investment by \$855 million and \$173 million, respectively.

Additionally, in 2007, we completed the joint purchase of Sandora, LLC with PAS.

PAS holds a 60% majority interest in the joint venture and consolidates the entity. We account for our interest of 40% under the equity method of accounting.

### Related Party Transactions

Our significant related party transactions include our noncontrolled bottling affiliates. We sell concentrate to these affiliates, which they use in the production of CSDs and non-carbonated beverages. We also sell certain finished goods to these

affiliates, and we receive royalties for the use of our trademarks for certain products. Sales of concentrate and finished goods are reported net of bottler funding. For further unaudited information on these bottlers, see "Our Customers" in Management's Discussion and Analysis. These transactions with our bottling affiliates are reflected in our consolidated financial statements as follows:

	2007	2006	2005
Net revenue	\$4,874	\$4,837	\$4,633
Selling, general and administrative expenses	\$91	\$87	\$143
Accounts and notes receivable	\$163	\$175	
Accounts payable and other current liabilities	\$106	\$62	

Such amounts are settled on terms consistent with other trade receivables and payables. See Note 9 regarding our guarantee of certain PBG debt.

In addition, we coordinate, on an aggregate basis, the contract negotiations

of sweeteners and other raw material requirements for certain of our bottlers. Once we have negotiated the contracts, the bottlers order and take delivery directly from the supplier and pay the suppliers directly. Consequently, these

transactions are not reflected in our consolidated financial statements. As the contracting party, we could be liable to these suppliers in the event of any nonpayment by our bottlers, but we consider this exposure to be remote.

## Note 9 — Debt Obligations and Commitments

	2007	2006
<b>Short-term debt obligations</b>		
Current maturities of long-term debt	\$ 526	\$ 605
Commercial paper (4.3% and 5.3%)	361	792
Other borrowings (7.2% and 7.3%)	489	377
Amounts reclassified to long-term debt	(1,376)	(1,500)
	\$ —	\$ 274
<b>Long-term debt obligations</b>		
Short-term borrowings, reclassified	\$1,376	\$1,500
Notes due 2008-2026 (5.3% and 6.0%)	2,673	1,148
Zero coupon notes, \$375 million due 2008-2012 (13.3%)	285	299
Other, due 2008-2016 (6.1% and 6.1%)	395	208
	4,729	3,155
Less: current maturities of long-term debt obligations	(526)	(605)
	\$4,203	\$2,550

The interest rates in the above table reflect weighted-average rates at year-end.

In the second quarter of 2007, we issued \$1 billion of senior unsecured notes maturing in 2012. We used a portion of the proceeds from the issuance of the notes to repay existing short-term debt of \$500 million, bearing interest at 3.2% per year and maturing on May 15, 2007, with the balance of the proceeds used primarily for general corporate purposes. Additionally, in the second quarter of 2007, we extended the maturity of our \$1.5 billion unsecured revolving credit agreement by one year to 2012, and, in the third quarter of 2007, we increased the amount of this agreement from \$1.5 billion to \$2 billion. Funds borrowed under this agreement may be used for general corporate purposes, including supporting our outstanding commercial paper issuances. This line of credit remains unused as of December 29, 2007.

In the third quarter of 2007, we updated our U.S. \$2.5 billion euro medium term note program following the expiration of the existing program. Under the program, we may issue unsecured notes under mutually agreed upon terms with the purchasers of the notes. Proceeds from any issuance of notes may be used

for general corporate purposes, except as otherwise specified in the related prospectus. As of December 29, 2007, we have no outstanding notes under the program.

In the fourth quarter of 2007, we issued \$1 billion of senior unsecured notes maturing in 2013. We used the proceeds from the issuance of the notes for general corporate purposes, including the repayment of outstanding short-term indebtedness.

As of December 29, 2007, we have reclassified \$1.4 billion of short-term debt to long-term based on our intent and ability to refinance on a long-term basis.

In addition, as of December 29, 2007, \$806 million of our debt related to borrowings from various lines of credit is maintained for our international divisions. These lines of credit are subject to normal banking terms and conditions and are fully committed to the extent of our borrowings.

### Interest Rate Swaps

In connection with the issuance of the \$1 billion notes in the second quarter of 2007, we entered into an interest rate swap to effectively convert the interest rate from a fixed rate of 5.15%

to a variable rate based on LIBOR. We previously entered into an interest rate swap in 2004 to effectively convert the interest rate of a specific debt issuance from a fixed rate to a variable rate. This interest rate swap matured in May 2007. The terms of the swaps match the terms of the debt they modify. The notional amounts of the interest rate swaps outstanding at December 29, 2007 and December 30, 2006 were \$1 billion and \$500 million, respectively.

At December 29, 2007, approximately 56% of total debt, after the impact of the related interest rate swap, was exposed to variable interest rates, compared to 63% at December 30, 2006. In addition to variable rate long-term debt, all debt with maturities of less than one year is categorized as variable for purposes of this measure.

### Cross Currency Interest Rate Swaps

In 2004, we entered into a cross currency interest rate swap to hedge the currency exposure on U.S. dollar denominated debt of \$50 million held by a foreign affiliate. The terms of this swap match the terms of the debt it modifies. The swap matures in 2008. The unrealized loss related to this swap was approximately \$8 million at December 29, 2007, resulting in a U.S. dollar liability of \$58 million. The unrealized gain related to this swap was less than \$1 million at December 30, 2006, resulting in a U.S. dollar liability of \$50 million.

We also entered into cross currency interest rate swaps to hedge the currency exposure on U.S. dollar denominated intercompany debt of \$45 million at December 29, 2007 and \$95 million at December 30, 2006. The terms of the swaps match the terms of the debt they modify. The net unrealized losses related to these swaps was less than \$1 million at December 29, 2007 and December 30, 2006. The outstanding swap matures in 2008.



## Long-Term Contractual Commitments<sup>(a)</sup>

Payments Due by Period	Total	2008	2009-2010	2011-2012	2013 and beyond
Long-term debt obligations <sup>(b)</sup>	\$ 2,827	\$ —	\$ 171	\$1,340	\$1,316
Interest on debt obligations <sup>(c)</sup>	938	184	300	285	169
Operating leases	1,105	260	340	191	314
Purchasing commitments	3,767	1,182	1,713	509	363
Marketing commitments	1,251	329	551	278	93
Other commitments	248	44	127	75	2
	\$10,136	\$1,999	\$3,202	\$2,678	\$2,257

(a) Reflects non-cancelable commitments as of December 29, 2007 based on year-end foreign exchange rates and excludes any reserves for income taxes under FIN 48 as we are unable to reasonably predict the ultimate amount or timing of settlement of our reserves for income taxes.

(b) Excludes short-term borrowings reclassified as long-term debt of \$1,376 million and includes \$273 million of accrued interest related to our zero coupon notes.

(c) Interest payments on floating-rate debt are estimated using interest rates effective as of December 29, 2007.

Most long-term contractual commitments, except for our long-term debt obligations, are not recorded on our balance sheet. Non-cancelable operating leases primarily represent building leases. Non-cancelable purchasing commitments are primarily for oranges and orange juice, packaging materials and cooking oil. Non-cancelable marketing commitments are primarily for sports marketing. Bottler funding is not reflected in our long-term contractual commitments as it is negotiated on an annual basis. See Note 7 regarding our pension and retiree medical obligations and discussion below regarding our commitments to noncontrolled bottling affiliates and former restaurant operations.

## Off-Balance-Sheet Arrangements

It is not our business practice to enter into off-balance-sheet arrangements, other than in the normal course of business. However, certain guarantees were necessary to facilitate the separation of our bottling and restaurant operations from us. In connection with these transactions, we have guaranteed \$2.3 billion of Bottling Group, LLC's long-term debt through 2012 and \$18 million of YUM! Brands, Inc.'s (YUM) outstanding obligations, primarily property leases, through 2020. The terms of our Bottling Group, LLC debt guarantee are intended to preserve the structure of PBG's separation from

us and our payment obligation would be triggered if Bottling Group, LLC failed to perform under these debt obligations or the structure significantly changed. Our guarantees of certain obligations ensured YUM's continued use of certain properties. These guarantees would require our cash payment if YUM failed to perform under these lease obligations. See Note 8 regarding contracts related to certain of our bottlers.

See "Our Liquidity and Capital Resources" in Management's Discussion and Analysis for further unaudited information on our borrowings.

## Note 10 — Risk Management

We are exposed to market risks arising from adverse changes in:

- commodity prices, affecting the cost of our raw materials and energy,
- foreign exchange risks, and
- interest rates.

In the normal course of business, we manage these risks through a variety of strategies, including the use of derivatives. Certain derivatives are designated as either cash flow or fair value hedges and qualify for hedge accounting treatment, while others do not qualify and are marked to market through earnings. See "Our Business Risks" in Management's Discussion and Analysis for further unaudited information on our business risks.

For cash flow hedges, changes in fair value are deferred in accumulated other comprehensive loss within shareholders' equity until the underlying hedged

item is recognized in net income. For fair value hedges, changes in fair value are recognized immediately in earnings, consistent with the underlying hedged item. Hedging transactions are limited to an underlying exposure. As a result, any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. Hedging ineffectiveness and a net earnings impact occur when the change in the value of the hedge does not offset the change in the value of the underlying hedged item. If the derivative instrument is terminated, we continue to defer the related gain or loss and include it as a component of the cost of the underlying hedged item. Upon determination that the underlying hedged item will not be part of an actual transaction, we recognize the related gain or loss in net income in that period.

We also use derivatives that do not qualify for hedge accounting treatment. We account for such derivatives at market value with the resulting gains and losses reflected in our income statement. We do not use derivative instruments for trading or speculative purposes, and we limit our exposure to individual counterparties to manage credit risk.

## Commodity Prices

We are subject to commodity price risk because our ability to recover increased costs through higher pricing may be limited in the competitive environment in which we operate. This risk is managed through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivatives. We use derivatives, with terms of no more than two years, to economically hedge

price fluctuations related to a portion of our anticipated commodity purchases, primarily for natural gas, diesel fuel and fruit. For those derivatives that qualify for hedge accounting, any ineffectiveness is recorded immediately. However, such commodity cash flow hedges have not had any significant ineffectiveness for all periods presented. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item. During the next 12 months, we expect to reclassify net gains of \$1 million related to cash flow hedges from accumulated other comprehensive loss into net income. Derivatives used to hedge commodity price risks that do not qualify for hedge accounting are marked to market each period and reflected in our income statement.

## Foreign Exchange

Our operations outside of the U.S. generate 44% of our net revenue, with Mexico, the United Kingdom and Canada comprising 19% of our net revenue. As a result, we are exposed to foreign currency risks. On occasion, we enter into hedges, primarily forward contracts with terms of no more than two years, to reduce the effect of foreign exchange rates. Ineffectiveness of these hedges has not been material.

## Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We may use interest rate and cross currency interest rate swaps to manage our overall interest expense and foreign exchange

risk. These instruments effectively change the interest rate and currency of specific debt issuances. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt. These swaps are entered into only with strong credit-worthy counterparties and are settled on a net basis.

## Fair Value

All derivative instruments are recognized on our balance sheet at fair value. The fair value of our derivative instruments is generally based on quoted market prices. Book and fair values of our derivative and financial instruments are as follows:

	2007		2006	
	Book Value	Fair Value	Book Value	Fair Value
<b>Assets</b>				
Cash and cash equivalents <sup>(a)</sup>	\$910	\$910	\$1,651	\$1,651
Short-term investments <sup>(b)</sup>	\$1,571	\$1,571	\$1,171	\$1,171
Forward exchange contracts <sup>(c)</sup>	\$32	\$32	\$8	\$8
Commodity contracts <sup>(d)</sup>	\$10	\$10	\$2	\$2
Prepaid forward contracts <sup>(e)</sup>	\$74	\$74	\$73	\$73
Interest rate swaps <sup>(f)</sup>	\$36	\$36	\$—	\$—
Cross currency interest rate swaps <sup>(g)</sup>	\$—	\$—	\$1	\$1
<b>Liabilities</b>				
Forward exchange contracts <sup>(c)</sup>	\$61	\$61	\$24	\$24
Commodity contracts <sup>(d)</sup>	\$7	\$7	\$29	\$29
Debt obligations	\$4,203	\$4,352	\$2,824	\$2,955
Interest rate swaps <sup>(g)</sup>	\$—	\$—	\$4	\$4
Cross currency interest rate swaps <sup>(g)</sup>	\$8	\$8	\$—	\$—

The above items are included on our balance sheet under the captions noted or as indicated below. In addition, derivatives qualify for hedge accounting unless otherwise noted below.

(a) Book value approximates fair value due to the short maturity.

(b) Principally short-term time deposits and includes \$189 million at December 29, 2007 and \$145 million at December 30, 2006 of mutual fund investments used to manage a portion of market risk arising from our deferred compensation liability.

(c) The 2007 asset includes \$20 million related to derivatives that do not qualify for hedge accounting and the 2007 liability includes \$5 million related to derivatives that do not qualify for hedge accounting. The 2006 liability includes \$10 million related to derivatives that do not qualify for hedge accounting. Assets are reported within current assets and other assets, and liabilities are reported within current liabilities and other liabilities.

(d) The 2007 asset includes \$10 million related to derivatives that do not qualify for hedge accounting and the 2007 liability includes \$7 million related to derivatives that do not qualify for hedge accounting. The 2006 liability includes \$28 million related to derivatives that do not qualify for hedge accounting. Assets are reported within current assets and other assets, and liabilities are reported within current liabilities and other liabilities.

(e) Included in current assets and other assets.

(f) Asset included within other assets.

(g) Reported in other liabilities.

This table excludes guarantees, including our guarantee of \$2.3 billion of Bottling Group, LLC's long-term debt. The guarantee had a fair value of \$35 million at December 29, 2007 and December 30, 2006 based on our estimate of the cost to us of transferring the liability to an independent financial institution. See Note 9 for additional information on our guarantees.



## Note 11 — Net Income per Common Share

Basic net income per common share is net income available to common shareholders divided by the weighted average of common shares outstanding during the period. Diluted net income per common share is calculated using the weighted average of common shares outstanding adjusted to include the effect that

would occur if in-the-money employee stock options were exercised and RSUs and preferred shares were converted into common shares. Options to purchase 2.7 million shares in 2007, 0.1 million shares in 2006 and 3.0 million shares in 2005 were not included in the calculation of diluted earnings per common share

because these options were out-of-the-money. Out-of-the-money options had average exercise prices of \$65.18 in 2007, \$65.24 in 2006 and \$53.77 in 2005.

The computations of basic and diluted net income per common share are as follows:

	2007		2006		2005	
	Income	Shares <sup>(a)</sup>	Income	Shares <sup>(a)</sup>	Income	Shares <sup>(a)</sup>
Net income	\$5,658		\$5,642		\$4,078	
Preferred shares:						
Dividends	(2)		(2)		(2)	
Redemption premium	(10)		(9)		(16)	
Net income available for common shareholders	\$5,646	1,621	\$5,631	1,649	\$4,060	1,669
Basic net income per common share	\$3.48		\$3.42		\$2.43	
Net income available for common shareholders	\$5,646	1,621	\$5,631	1,649	\$4,060	1,669
Dilutive securities:						
Stock options and RSUs	—	35	—	36	—	35
ESOP convertible preferred stock	12	2	11	2	18	2
Diluted	\$5,658	1,658	\$5,642	1,687	\$4,078	1,706
Diluted net income per common share	\$3.41		\$3.34		\$2.39	

(a) Weighted-average common shares outstanding.

## Note 12 — Preferred Stock

As of December 29, 2007 and December 30, 2006, there were 3 million shares of convertible preferred stock authorized. The preferred stock was issued only for an ESOP established by Quaker and these shares are redeemable for common stock by the ESOP participants. The preferred stock accrues dividends at an annual rate

of \$5.46 per share. At year-end 2007 and 2006, there were 803,953 preferred shares issued and 287,553 and 320,853 shares outstanding, respectively. The outstanding preferred shares had a fair value of \$108 million as of December 29, 2007 and \$100 million as of December 30, 2006. Each share is

convertible at the option of the holder into 4.9625 shares of common stock. The preferred shares may be called by us upon written notice at \$78 per share plus accrued and unpaid dividends. Quaker made the final award to its ESOP plan in June 2001.

	2007		2006		2005	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Preferred stock</b>	<b>0.8</b>	<b>\$41</b>	<b>0.8</b>	<b>\$41</b>	<b>0.8</b>	<b>\$41</b>
<b>Repurchased preferred stock</b>						
Balance, beginning of year	0.5	\$120	0.5	\$110	0.4	\$ 90
Redemptions	—	12	—	10	0.1	19
Balance, end of year	0.5	\$132	0.5	\$120	0.5	\$110 <sup>(a)</sup>

(a) Does not sum due to rounding.



## Note 13 — Accumulated Other Comprehensive Loss

Comprehensive income is a measure of income which includes both net income and other comprehensive income or loss. Other comprehensive income or loss results from items deferred from

recognition into our income statement. Accumulated other comprehensive loss is separately presented on our balance sheet as part of common shareholders' equity. Other comprehensive income/(loss)

was \$1,294 million in 2007, \$456 million in 2006 and \$(167) million in 2005. The accumulated balances for each component of other comprehensive loss were as follows:

	2007	2006	2005
Currency translation adjustment	\$ 213	\$ (506)	\$ (971)
Cash flow hedges, net of tax <sup>(a)</sup>	(35)	4	27
Unamortized pension and retiree medical, net of tax <sup>(b)</sup>	(1,183)	(1,782)	—
Minimum pension liability adjustment <sup>(c)</sup>	—	—	(138)
Unrealized gain on securities, net of tax	49	40	31
Other	4	(2)	(2)
Accumulated other comprehensive loss	\$ (952)	\$ (2,246)	\$ (1,053)

(a) Includes \$3 million after-tax gain in 2007 and 2006 and no impact in 2005 for our share of our equity investees' accumulated derivative activity.

(b) Net of taxes of \$645 million in 2007 and \$919 million in 2006.

(c) Net of taxes of \$72 million in 2005. Also includes \$120 million for our share of our equity investees' minimum pension liability adjustments, net of tax.

## Note 14 — Supplemental Financial Information

	2007	2006	2005
<b>Accounts receivable</b>			
Trade receivables	\$3,670	\$3,147	
Other receivables	788	642	
	<b>4,458</b>	<b>3,789</b>	
Allowance, beginning of year	64	75	\$ 97
Net amounts charged/(credited) to expense	5	10	(1)
Deductions <sup>(a)</sup>	(7)	(27)	(22)
Other <sup>(b)</sup>	7	6	1
Allowance, end of year	<b>69</b>	<b>64</b>	<b>\$ 75</b>
Net receivables	<b>\$4,389</b>	<b>\$3,725</b>	
<b>Inventories<sup>(c)</sup></b>			
Raw materials	\$1,056	\$ 860	
Work-in-process	157	140	
Finished goods	1,077	926	
	<b>\$2,290</b>	<b>\$1,926</b>	

(a) Includes accounts written off.

(b) Includes currency translation effects and other adjustments.

(c) Inventories are valued at the lower of cost or market. Cost is determined using the average, first-in, first-out (FIFO) or last-in, first-out (LIFO) methods. Approximately 14% in 2007 and 19% in 2006 of the inventory cost was computed using the LIFO method. The differences between LIFO and FIFO methods of valuing these inventories were not material.

	2007	2006	
<b>Other assets</b>			
Noncurrent notes and accounts receivable	\$ 121	\$ 149	
Deferred marketplace spending	205	232	
Unallocated purchase price for recent acquisitions	451	196	
Pension plans	635	197	
Other	270	206	
	<b>\$1,682</b>	<b>\$980</b>	
<b>Accounts payable and other current liabilities</b>			
Accounts payable	\$2,562	\$2,102	
Accrued marketplace spending	1,607	1,444	
Accrued compensation and benefits	1,287	1,143	
Dividends payable	602	492	
Other current liabilities	1,544	1,315	
	<b>\$7,602</b>	<b>\$6,496</b>	
<b>Other supplemental information</b>			
Rent expense	\$303	\$291	\$228
Interest paid	\$251	\$215	\$213
Income taxes paid, net of refunds	\$1,731	\$2,155	\$1,258
Acquisitions <sup>(a)</sup>			
Fair value of assets acquired	\$ 1,611	\$ 678	\$ 1,089
Cash paid and debt issued	(1,320)	(522)	(1,096)
SVE minority interest eliminated	—	—	216
Liabilities assumed	\$ 291	\$ 156	\$ 209

(a) In 2005, these amounts include the impact of our acquisition of General Mills, Inc.'s 40.5% ownership interest in SVE for \$750 million. The excess of our purchase price over the fair value of net assets acquired was \$250 million and reported in goodwill. We also reacquired rights to distribute global brands for \$263 million which is included in other nonamortizable intangible assets.

## Management's Responsibility for Financial Reporting

### To Our Shareholders:

At PepsiCo, our actions — the actions of all our associates — are governed by our Worldwide Code of Conduct. This code is clearly aligned with our stated values — a commitment to sustained growth, through empowered people, operating with responsibility and building trust. Both the code and our core values enable us to operate with integrity — both within the letter and the spirit of the law. Our code of conduct is reinforced consistently at all levels and in all countries. We have maintained strong governance policies and practices for many years.

The management of PepsiCo is responsible for the objectivity and integrity of our consolidated financial statements. The Audit Committee of the Board of Directors has engaged independent registered public accounting firm, KPMG LLP, to audit our consolidated financial statements and they have expressed an unqualified opinion.

We are committed to providing timely, accurate and understandable information to investors. Our commitment encompasses the following:

**Maintaining strong controls over financial reporting.** Our system of internal control is based on the control criteria framework of the Committee of Sponsoring Organizations of the Treadway Commission published in their report titled *Internal Control — Integrated Framework*. The system is designed to provide reasonable assurance that transactions are executed as authorized and accurately recorded; that assets are safeguarded; and that accounting records are sufficiently reliable to permit the preparation of financial statements that conform in all material respects with accounting principles generally accepted in the U.S. We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the specified time periods. We monitor these internal controls through self-assessments and an ongoing program of internal audits. Our internal controls are reinforced through our Worldwide Code of Conduct, which sets forth our commitment to conduct business with integrity, and within both the letter and the spirit of the law.

**Exerting rigorous oversight of the business.** We continuously review our business results and strategies. This encompasses financial discipline in our strategic and daily business decisions. Our Executive Committee is actively involved — from understanding strategies and alternatives to reviewing key initiatives and financial performance. The intent is to ensure we remain objective in our assessments, constructively challenge our approach to potential business opportunities and issues, and monitor results and controls.

**Engaging strong and effective Corporate Governance from our Board of Directors.** We have an active, capable and diligent Board that meets the required standards for independence, and we welcome the Board's oversight as a representative of our shareholders. Our Audit Committee is comprised of independent directors with the financial literacy, knowledge and experience to provide appropriate oversight. We review our critical accounting policies, financial reporting and internal control matters with them and encourage their direct communication with KPMG LLP, with our General Auditor, and with our General Counsel. We also have a senior compliance officer to lead and coordinate our compliance policies and practices.

**Providing investors with financial results that are complete, transparent and understandable.** The consolidated financial statements and financial information included in this report are the responsibility of management. This includes preparing the financial statements in accordance with accounting principles generally accepted in the U.S., which require estimates based on management's best judgment.

**PepsiCo has a strong history of doing what's right.** We realize that great companies are built on trust, strong ethical standards and principles. Our financial results are delivered from that culture of accountability, and we take responsibility for the quality and accuracy of our financial reporting.



Peter A. Bridgman  
Senior Vice President and Controller



Richard Goodman  
Chief Financial Officer

## Management's Report on Internal Control over Financial Reporting

### To Our Shareholders:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of December 29, 2007.

KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

During our fourth fiscal quarter of 2007, we continued migrating certain of our financial processing systems to SAP software. This software implementation is part of our ongoing global business transformation initiative, and we plan to continue implementing such software throughout other parts of our businesses over the course of the next few years. In connection with the SAP implementation and resulting business process changes, we continue to enhance the design and documentation of our internal control processes to ensure suitable controls over our financial reporting.

Except as described above, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during our fourth fiscal quarter of 2007.



Indra K. Nooyi  
Chairman of the Board of Directors and  
Chief Executive Officer



# Report of Independent Registered Public Accounting Firm

## The Board of Directors and Shareholders PepsiCo, Inc.:

We have audited the accompanying Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries ("PepsiCo, Inc." or the "Company") as of December 29, 2007 and December 30, 2006, and the related Consolidated Statements of Income, Cash Flows and Common Shareholders' Equity for each of the years in the three-year period ended December 29, 2007. We also have audited PepsiCo, Inc.'s internal control over financial reporting as of December 29, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). PepsiCo, Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and

dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. as of December 29, 2007 and December 30, 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 29, 2007, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, PepsiCo, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on criteria established in Internal Control — Integrated Framework issued by COSO.

**KPMG LLP**

New York, New York  
February 15, 2008

## Reconciliation of GAAP and Non-GAAP Information

The financial measures listed below are not measures defined by generally accepted accounting principles. However, we believe investors should consider these measures as they are more indicative of our ongoing performance and how management evaluates our operational results and trends. Specifically, investors should consider the following:

- Our 2007 and 2006 division operating profit;
- Our 2007 and 2006 division operating profit and total operating profit without the impact of restructuring and impairment charges; and our 2007 division operating profit growth and total operating profit growth without the impact of restructuring and impairment charges;
- Our 2007 and 2006 net income without the impact of our 2007 and 2006 non-cash tax benefits and restructuring and impairment charges; our 2007 net income growth without the impact of the aforementioned items; and
- Our 2007 and 2006 diluted EPS without the impact of our 2007 and 2006 non-cash tax benefits and restructuring and impairment charges; our 2007 diluted EPS growth without the impact of the aforementioned items; and our 2005 diluted EPS without the impact of the AJCA tax charge, restructuring charges and the extra week in 2005.

Operating Profit Reconciliation	2007	2006	Growth
Total PepsiCo Reported Operating Profit	\$7,170	\$6,502	10%
Impact of Restructuring and Impairment Charges	102	67	
Total Operating Profit Excluding above Item	7,272	6,569	11%
Impact of Corporate Unallocated	753	738	
PepsiCo Total Division Operating Profit Excluding above Items	\$8,025	\$7,307	10%

Operating Profit Reconciliation	2007	2006	2007 Percentage of Total
Frito-Lay North America Operating Profit	\$2,845	\$2,615	36%
Quaker Foods North America Operating Profit	568	554	7
Latin America Foods Operating Profit	714	655	9
PepsiCo Americas Beverages Operating Profit	2,487	2,315	31
United Kingdom & Europe Operating Profit	774	700	10
Middle East, Africa & Asia Operating Profit	535	401	7
PepsiCo Total Division Operating Profit	7,923	7,240	100%
Impact of Corporate Unallocated	(753)	(738)	
Total PepsiCo Reported Operating Profit	\$7,170	\$6,502	

Net Income Reconciliation	2007	2006	Growth
Reported Net Income	\$5,658	\$5,642	-
Tax Benefits	(129)	(620)	
Restructuring and Impairment Charges	70	43	
Net Income Excluding above Items	\$5,599	\$5,065	11%

Diluted EPS Reconciliation	2007	2006	2007 Growth	2005
Reported Diluted EPS	\$ 3.41	\$ 3.34	2%	\$ 2.39
Tax Benefits	(0.08)	(0.37)		
AJCA Tax Charge				0.27
Extra Week				(0.03)
Restructuring and Impairment Charges	0.04	0.03		0.03
Diluted EPS Excluding above Items	\$ 3.38*	\$ 3.00	13%	\$ 2.66

\* Does not sum due to rounding.

## GLOSSARY

**Anchor bottlers:** The Pepsi Bottling Group (PBG), PepsiAmericas (PAS) and Pepsi Bottling Ventures (PBV).

**Bottler:** customers to whom we have granted exclusive contracts to sell and manufacture certain beverage products bearing our trademarks within a specific geographical area.

**Bottler Case Sales (BCS):** measure of physical beverage volume shipped to retailers and independent distributors from both PepsiCo and our bottlers.

**Bottler funding:** financial incentives we give to our bottlers to assist in the distribution and promotion of our beverage products.

**Concentrate Shipments and Equivalents (CSE):** measure of our physical beverage volume shipments to bottlers, retailers and independent distributors. This measure is reported on our fiscal year basis.

**Consumers:** people who eat and drink our products.

**CSD:** carbonated soft drinks.

**Customers:** authorized bottlers and independent distributors and retailers.

**Derivatives:** financial instruments that we use to manage our risk arising from changes in commodity prices, interest rates, foreign exchange rates and stock prices.

**Direct-Store-Delivery (DSD):** delivery system used by us and our bottlers to deliver snacks and beverages directly to retail stores where our products are merchandised.

**Effective net pricing:** reflects the year-over-year impact of discrete pricing actions, sales incentive activities and mix resulting from selling varying products in different package sizes and in different countries.

**Management operating cash flow:** net cash provided by operating activities less capital spending plus sales of property, plant and equipment. It is our primary measure used to monitor cash flow performance.

**Marketplace spending:** sales incentives offered through various programs to our customers and consumers (trade spending), as well as advertising and other marketing activities.

**Servings:** common metric reflecting our consolidated physical unit volume. Our divisions' physical unit measures are converted into servings based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

**Smart Spot:** our initiative that helps consumers find our products that can contribute to healthier lifestyles.

**Transaction gains and losses:** the impact on our consolidated financial statements of exchange rate changes arising from specific transactions.

**Translation adjustments:** the impact of the conversion of our foreign affiliates' financial statements to U.S. dollars for the purpose of consolidating our financial statements.



## Selected Financial Data (in millions except per share amounts, unaudited)

Quarterly	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>Net revenue</b>				
2007	\$7,350	\$9,607	\$10,171	\$12,346
2006	\$6,719	\$8,714	\$9,134	\$10,570
<b>Gross profit</b>				
2007	\$4,065	\$5,265	\$5,544	\$6,562
2006	\$3,757	\$4,852	\$5,026	\$5,740
<b>Restructuring and impairment charges<sup>(a)</sup></b>				
2007	—	—	—	\$102
2006	—	—	—	\$67
<b>Tax benefits<sup>(b)</sup></b>				
2007	—	—	\$(115)	\$(14)
2006	—	—	—	\$(602)
<b>Net income</b>				
2007	\$1,096	\$1,557	\$1,743	\$1,262
2006	\$947	\$1,375	\$1,494	\$1,826
<b>Net income per common share — basic</b>				
2007	\$0.67	\$0.96	\$1.08	\$0.78
2006	\$0.57	\$0.83	\$0.90	\$1.11
<b>Net income per common share — diluted</b>				
2007	\$0.65	\$0.94	\$1.06	\$0.77
2006	\$0.56	\$0.81	\$0.89	\$1.09
<b>Cash dividends declared per common share</b>				
2007	\$0.30	\$0.375	\$0.375	\$0.375
2006	\$0.26	\$0.30	\$0.30	\$0.30
<b>2007 stock price per share<sup>(c)</sup></b>				
High	\$65.54	\$69.64	\$70.25	\$79.00
Low	\$61.89	\$62.57	\$64.25	\$68.02
Close	\$64.09	\$66.68	\$67.98	\$77.03
<b>2006 stock price per share<sup>(c)</sup></b>				
High	\$60.55	\$61.19	\$65.99	\$65.99
Low	\$56.00	\$56.51	\$58.65	\$61.15
Close	\$59.34	\$59.70	\$64.73	\$62.55

2006 results reflect our change in reporting calendars of certain operating units within PI.

(a) The restructuring and impairment charge in 2007 was \$102 million (\$70 million or \$0.04 per share after-tax). The restructuring and impairment charge in 2006 was \$67 million (\$43 million or \$0.03 per share after-tax). See Note 3.

(b) In 2007, represents non-cash tax benefits related to the favorable resolution of certain foreign tax matters. In 2006, represents non-cash tax benefits primarily related to the IRS's examination of our consolidated income tax returns for the years 1998 through 2002. See Note 5.

(c) Represents the composite high and low sales price and quarterly closing prices for one share of PepsiCo common stock.

<b>Five-Year Summary</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Net revenue	<b>\$39,474</b>	\$35,137	\$32,562
Net income	<b>\$5,658</b>	\$5,642	\$4,078
Income per common share — basic	<b>\$3.48</b>	\$3.42	\$2.43
Income per common share — diluted	<b>\$3.41</b>	\$3.34	\$2.39
Cash dividends declared per common share	<b>\$1.425</b>	\$1.16	\$1.01
Total assets	<b>\$34,628</b>	\$29,930	\$31,727
Long-term debt	<b>\$4,203</b>	\$2,550	\$2,313
Return on invested capital <sup>(a)</sup>	<b>28.9%</b>	30.4%	22.7%

<b>Five-Year Summary (cont.)</b>	<b>2004</b>	<b>2003</b>
Net revenue	\$29,261	\$26,971
Income from continuing operations	\$4,174	\$3,568
Net income	\$4,212	\$3,568
Income per common share — basic, continuing operations	\$2.45	\$2.07
Income per common share — diluted, continuing operations	\$2.41	\$2.05
Cash dividends declared per common share	\$0.85	\$0.63
Total assets	\$27,987	\$25,327
Long-term debt	\$2,397	\$1,702
Return on invested capital <sup>(a)</sup>	27.4%	27.5%

(a) Return on invested capital is defined as adjusted net income divided by the sum of average shareholders' equity and average total debt. Adjusted net income is defined as net income plus net interest expense after-tax. Net interest expense after-tax was \$63 million in 2007, \$72 million in 2006, \$62 million in 2005, \$60 million in 2004 and \$72 million in 2003.

• Includes restructuring and impairment charges of:

	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Pre-tax	<b>\$102</b>	\$67	\$83	\$150	\$147
After-tax	<b>\$70</b>	\$43	\$55	\$96	\$100
Per share	<b>\$0.04</b>	\$0.03	\$0.03	\$0.06	\$0.06

• Includes Quaker merger-related costs of:

	<b>2003</b>
Pre-tax	\$59
After-tax	\$42
Per share	\$0.02

- In 2007, we recognized \$129 million (\$0.08 per share) of non-cash tax benefits related to the favorable resolution of certain foreign tax matters. In 2006, we recognized non-cash tax benefits of \$602 million (\$0.36 per share) primarily in connection with the IRS's examination of our consolidated income tax returns for the years 1998 through 2002. In 2005, we recorded income tax expense of \$460 million (\$0.27 per share) related to our repatriation of earnings in connection with the AJCA. In 2004, we reached agreement with the IRS for an open issue related to our discontinued restaurant operations which resulted in a tax benefit of \$38 million (\$0.02 per share).
- On December 30, 2006, we adopted SFAS 158 which reduced total assets by \$2,016 million, total common shareholders' equity by \$1,643 million and total liabilities by \$373 million.
- The 2005 fiscal year consisted of 53 weeks compared to 52 weeks in our normal fiscal year. The 53rd week increased 2005 net revenue by an estimated \$418 million and net income by an estimated \$57 million (\$0.03 per share).



## Common Stock Information

### Stock Trading Symbol — PEP

### Stock Exchange Listings

The New York Stock Exchange is the principal market for PepsiCo common stock, which is also listed on the Chicago and Swiss Stock Exchanges.

### Shareholders

As of February 8, 2008, there were approximately 185,000 shareholders of record.

### Dividend Policy

We target an annual dividend payout of 50% of prior year's earnings, excluding certain items. Dividends are usually declared in late January or early February, May, July and November and paid at the end of March, June and September and the beginning of January. The dividend record dates for these payments are, subject to approval of the Board of Directors, expected to be March 7, June 6, September 5 and December 5, 2008. We have paid consecutive quarterly cash dividends since 1965.

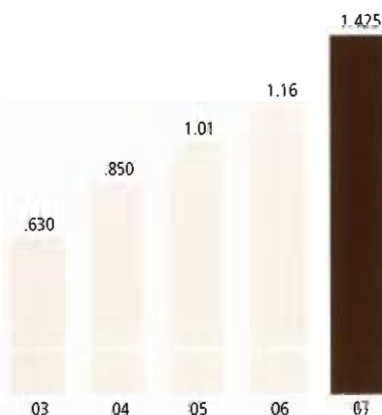
### Stock Performance

PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A \$1,000 investment in our stock made on December 31, 2002 was worth about \$1,964 on December 31, 2007, assuming the reinvestment of dividends into PepsiCo stock. This performance represents a compounded annual growth rate of 14%.

The closing price for a share of PepsiCo common stock on the New York Stock Exchange was the price as reported by Bloomberg for the years ending 2003-2007. Past performance is not necessarily indicative of future returns on investments in PepsiCo common stock.

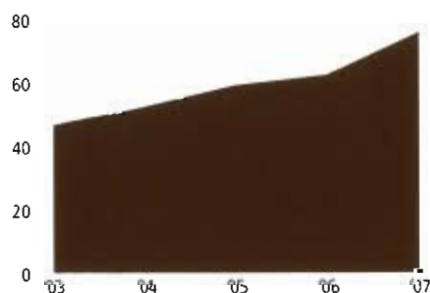
### Cash Dividends Declared

Per Share (in \$)



### Year-end Market Price of Stock

Based on calendar year-end (in \$)



PepsiCo's Annual Report contains many of the valuable trademarks owned and/or used by PepsiCo and its subsidiaries and affiliates in the United States and internationally to distinguish products and services of outstanding quality.

## Shareholder Information

### Annual Meeting

The Annual Meeting of Shareholders will be held at Frito-Lay Corporate Headquarters, 7701 Legacy Drive, Plano, Texas, on Wednesday, May 7, 2008, at 9:00 a.m. local time. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

### Inquiries Regarding Your Stock Holdings

Registered Shareholders (shares held by you in your name) should address communications concerning transfers, statements, dividend payments, address changes, lost certificates and other administrative matters to:

PepsiCo, Inc.  
c/o BNY Mellon Shareowner Services  
P.O. Box 358015  
Pittsburgh, PA 15252-8015  
Telephone: 800-226-0083  
201-680-6685 (Outside the U.S.)  
E-mail: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)  
Website: [www.bnymellon.com/shareowner/fid](http://www.bnymellon.com/shareowner/fid)  
or  
Manager Shareholder Relations  
PepsiCo, Inc.  
700 Anderson Hill Road  
Purchase, NY 10577  
Telephone: 914-253-3055

In all correspondence or telephone inquiries, please mention PepsiCo, your name as printed on your stock certificate, your Investor ID (IID), your address and telephone number.

**SharePower Participants** (employees with SharePower options) should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch/SharePower  
Stock Option Unit  
1600 Merrill Lynch Drive  
Mail Stop 06-02-SOP  
Pennington, NJ 08534  
Telephone: 800-637-6713 (U.S., Puerto Rico and Canada)  
609-818-8800 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your Social Security number), your address, your telephone number and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

### Employee Benefit Plan Participants

PepsiCo 401(k) Plan & PepsiCo Stock Purchase Program

The PepsiCo Savings & Retirement Center at Fidelity  
P.O. Box 770003  
Cincinnati, OH 45277-0065  
Telephone: 800-632-2014  
(Overseas: Dial your country's AT&T Access Number +800-632-2014. In the U.S., access numbers are available by calling 800-331-1140. From anywhere in the world, access numbers are available online at [www.att.com/traveler](http://www.att.com/traveler).)  
Website: [www.netbenefits.fidelity.com](http://www.netbenefits.fidelity.com)

PepsiCo Stock Purchase Program — for Canadian employees:

Fidelity Stock Plan Services  
P.O. Box 5000  
Cincinnati, OH 45273-8398  
Telephone: 800-544-0275  
Website: [www.iStockPlan.com/ESPP](http://www.iStockPlan.com/ESPP)

Please have a copy of your most recent statement available when calling with inquiries.

If using overnight or certified mail send to:

Fidelity Investments  
100 Crosby Parkway  
Mail Zone KC1F-L  
Covington, KY 41015

## Shareholder Services

### BuyDIRECT Plan

Interested investors can make their initial purchase directly through The Bank of New York, transfer agent for PepsiCo, and Administrator for the Plan. A brochure detailing the Plan is available on our website [www.pepsico.com](http://www.pepsico.com) or from our transfer agent:

PepsiCo, Inc.  
c/o BNY Mellon Shareowner Services  
P.O. Box 358015  
Pittsburgh, PA 15252-8015  
Telephone: 800-226-0083  
201-680-6685 (Outside the U.S.)  
E-mail: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)  
Website: [www.bnymellon.com/shareowner/fid](http://www.bnymellon.com/shareowner/fid)

Other services include dividend reinvestment, optional cash investments by electronic funds transfer or check drawn on a U.S. bank, sale of shares, online account access, and electronic delivery of shareholder materials.

### Financial and Other Information

PepsiCo's 2008 quarterly earnings releases are expected to be issued the weeks of April 21, July 21, October 6, 2008, and February 2, 2009.

Copies of PepsiCo's SEC reports, earnings and other financial releases, corporate news and additional company information are available on our website [www.pepsico.com](http://www.pepsico.com).

PepsiCo's CEO and CFO Certifications required under Sarbanes-Oxley Section 302 were filed as an exhibit to our Form 10-K filed with the SEC on February 15, 2008. PepsiCo's 2007 Domestic Company Section 303A CEO Certification was filed with the New York Stock Exchange (NYSE). In addition, we have a written statement of Management's Report on Internal Control over Financial Reporting on page 83 of this annual report.

If you have questions regarding PepsiCo's financial performance contact:

Jane Nielsen  
Vice President, Investor Relations  
PepsiCo, Inc.  
Purchase, NY 10577  
Telephone: 914-253-3035

### Independent Auditors

KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102  
Telephone: 212-758-9700

### Corporate Headquarters

PepsiCo, Inc.  
700 Anderson Hill Road  
Purchase, NY 10577  
Telephone: 914-253-2000

PepsiCo Website: [www.pepsico.com](http://www.pepsico.com)

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**TO BE CONTINUED...**

